FOREMOST McKESSON

150 Serving the Nation Since 1833

Foremost-McKesson, Inc.
One Post Street
San Francisco, CA 94104
(415) 983-8300

INVESTING IN PRODUCTIVITY

Foremost-McKesson
1983 Annual Report

FINANCIAL HIGHLIGHTS

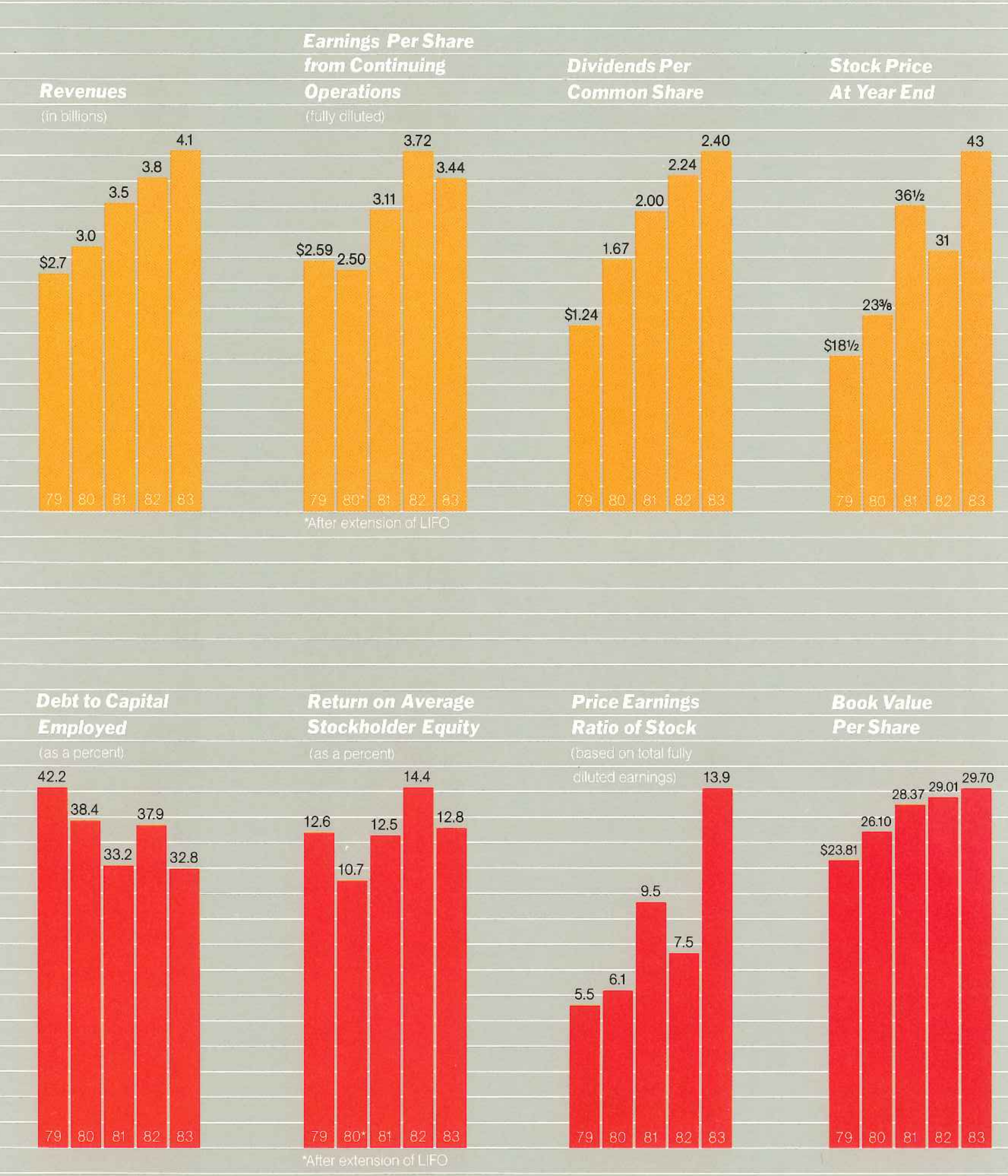
Years ended March 31	1983	1982	Change
		(in thousands except per share amounts)	
Revenues	**$4,081,481**	$3,823,958	6.7%
Operating profit	**152,804**	156,981	(2.7)
Income after taxes			
Continuing operations	**63,208**	65,824	(4.0)
Discontinued operations	**(6,715)**	7,713	
Net income	**56,493**	73,537	(23.2)
Average preferred stocks and common stockholder equity	**492,254**	456,905	7.7
Return[1]	**12.8%**	14.4%	
Average capital employed[2]	**870,259**	793,823	9.6
Return[1]	**7.3%**	8.3%	
Per Common Share			
Fully diluted earnings			
Continuing operations	**$ 3.44**	$ 3.72	(7.5)
Discontinued operations	**(.34)**	.42	
Total	**3.10**	4.14	(25.1)
Dividends	**2.40**	2.24	7.1
Book value—at year end	**29.70**	29.01	2.4

[1]Based on income from continuing operations.
[2]Capital employed consists of total debt, deferred taxes on income, preferred stocks and common stockholder equity.

Contents

Letter to Shareholders and Employees 2
Investing in Productivity 4
Review of Operating Groups 12
Six-Year Highlights 22
Financial Review 27
Quarterly Highlights 28
Financial Section 29
Employee Volunteers Vitalize Giving Program 47
After 150 Years, John McKesson Wouldn't Know His Little Company 48
Foremost-McKesson's Businesses 51
Shareholder Information 52
Directors and Officers 53

Commissioned by Foremost-McKesson to illustrate our theme of investing in productivity, cover artist Philippe Weisbecker is a frequent contributor to leading publications, including *Forbes, Fortune, The New York Times* and *Psychology Today.* A native of Dakar, Senegal, Weisbecker worked in Paris prior to emigrating to New York.
Strongly influenced by 16th- and 17th-century European popular imagery, Weisbecker says he looks for "a single word to sum up a whole idea." For Foremost-McKesson, he says that word is "growth."



TO OUR SHAREHOLDERS AND EMPLOYEES:

Under the impact of the most severe and widespread recession since World War II, the profitability of our business declined in fiscal 1983. Given the economic background, the decline we experienced was modest.

While revenues rose 7% for the year to $4,081,481,000, income from continuing operations declined 4% to $63,208,000 from $65,824,000, and earnings per share fell 8% to $3.44 from $3.72.

The decision to divest Foremost Dairies and certain other food operations resulted in a write-off of nearly $6 million. In combination with operating losses associated with these dispositions and a loss of $647,000 from discontinued home-building activities, net income declined 23% to $56,493,000 from $73,537,000, or $3.10 a share, down 25% from $4.14.

The decision to sell Foremost Dairies was difficult because of our roots in the dairy business, and that decision stands as a watershed in our 150-year history. It is significant, first, in terms of its sheer size relative to the overall company; second, as a major step in implementing our strategy for the future direction of the company; and third, as the underlying reason for our proposed name change to McKesson Corporation–a name which we believe accurately reflects our history, the present structure of our business and the path we are traveling. We will ask shareholders, at the annual meeting in July, to approve this name change.

Today, the McKesson distribution businesses–where we are the leader in health care products, wine and spirits and chemicals–account for 84% of our revenues and 53% of our profits. Clearly our greatest strengths–market leadership, management skills and critical mass–lie in the area of *Value-Added Distribution.*

Moreover, as we examine the external environment, it is equally clear that the world around us is marked by the accelerating pace of change. Nowhere is this more evident than in the area of computer technology. Perhaps the single greatest advantage that the McKesson distribution companies enjoy has been–and will continue to be–in computer technology, where our size and diversity have enabled us to achieve the necessary critical mass. Our data-processing resources now involve 550 people and an annual budget of over $65 million. We intend to continue the proliferation of this technology among our current distribution businesses and to seek out opportunities to apply it to other distribution-related businesses.

We continue to have strong proprietary product positions with excellent growth potential and we intend to seek out new opportunities aggressively in this area as well.

We have not, however, tried to set an arbitrary percentage objective for the investment mix between our distribution and proprietary product businesses.

The future investment mix between our businesses will be a function of both internal strategies and external opportunities. But we do intend to influence that mix through active and aggressive programs to grow selected areas of our business: drug and health care, other growth distribution businesses, new technology relevant to our businesses and consumer proprietary products where we see a special niche that we can fill.

This shift in emphasis–making *Value-Added Distribution* our primary thrust with a secondary thrust in certain proprietary product areas–reflects the facts as they are today. We have been moving in this direction for the past several years and we expect the pace to quicken during the course of fiscal 1984.

While we are adjusting our past strategies and changing our name to reflect this shift, we continue to work toward achieving our basic financial objective of a 15% compound growth rate in earnings from continuing operations in the 1981-85 time-frame. Reaching this goal will depend in large measure on a strong recovery in the general economic environment, particularly as it affects our businesses. Current indicators suggest that the economy is now on the mend.

We are emerging from the recession in a healthier financial condition than ever. We have achieved major successes in our cost-reduction and productivity program. (See story on page 4.) We have the ability to generate about $100 million a year for the next several years for investment in new businesses and acquisitions, and we have an active development and acquisition program under way. We have a skilled and dedicated group of employees committed to bringing our plans to realization.

For all of these reasons we are confident that the observance of our 150th anniversary will serve not only as a milestone in the history of a venerable American corporation, but as a signal for a new and exciting future. With the continuing efforts of our dedicated employees and the support of our shareholders, we expect that future to make us as proud as have the accomplishments of our first 150 years.

Neil E. Harlan
Chairman of the Board

Thomas E. Drohan
President and
Chief Executive Officer

June 6, 1983

INVESTING IN PRODUCTIVITY

Amid the evergreen forests and suburban neighborhoods that surround the seaport town of Everett, Washington, one of a new generation of McKesson Drug distribution centers is in full swing.

McKesson Drug in Everett characterizes Foremost-McKesson's successful blending of the latest in automated materials-handling equipment, computerized order-entry systems and inventory controls, innovative *Value-Added Distribution* services and an employee commitment to productivity gains. (See story, page 5.)

"Productivity is the greatest challenge facing American business today," says Foremost-McKesson President and Chief Executive Officer Tom Drohan, "and our business is no exception. In all of our operations, we're tackling the productivity issue from every angle—investing capital, introducing new technology, conserving energy, consolidating transportation services and cultivating human resources."

According to the American Productivity Center in Houston, the United States over the past ten years has experienced the lowest rate of productivity growth of any modern, industrial nation. But at Foremost-McKesson, productivity measured in sales per employee, expressed in constant dollars, has risen at an average rate of 6.5% per year over the last four years. (Figure 1)

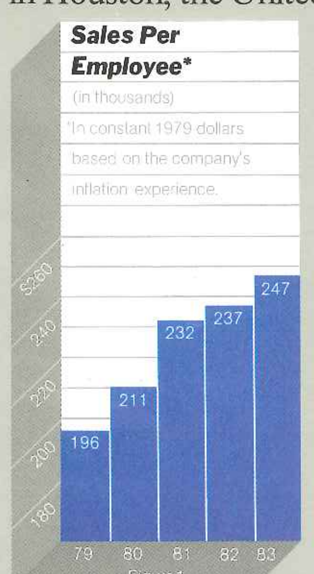


Figure 1

The Everett drug distribution center exemplifies the corporation's commitment to improving productivity in its more than 300 business units in 42 states. "Against a bleak economic backdrop," says Drohan, "we have continued to make significant capital investments to achieve dramatic and sustained improvements in productivity." But as Drug & Health Care Group President Ken Larson suggests, "We still have as far to go as we've already come."

Examples of productivity increases can be found throughout the corporation's foods, chemical, wine and spirits and other businesses, but perhaps nowhere has the improvement been as dramatic as in McKesson Drug Company, where overall warehouse productivity in fiscal 1983 increased 12% over the previous year and showed a six-year gain of 46%. Office productivity last year increased 11%, with a six-year gain of 93%.

Everett processed 290,000 order lines of products a month in the warehouse when the facility opened in 1976. Today, the Everett distribution center, which employs 94 workers, runs at a rate of 465,000 lines a month. "If we hadn't continued to improve our productivity all along," says Ken Morrison, the center's general manager, "we'd need about 45 more employees to handle our increasing sales volume, and labor costs would be substantially higher."

Since 1976, with the dramatic population influx into the Everett/Seattle area, McKesson Drug has tripled its customer base and now extends *Value-Added Distribution* services to more than 320 retail and hospital customers.

"As we become more and more productive at McKesson," says Everett Sales Representative Cary Gillet, "it stands to reason that we're able to pass along the benefits to our customers in the form of better service. That gives them a chance to be more efficient, too."

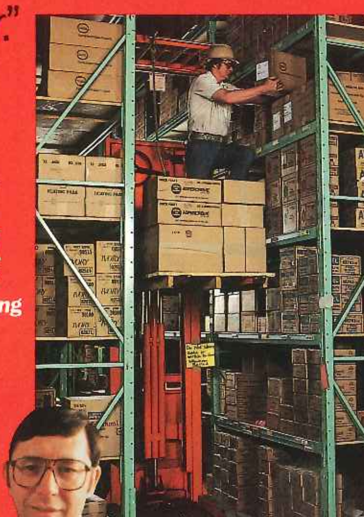
One of Gillet's customers is Dick Ramsey, pharmacist and owner of Ostrom's Drug in the

TEAMWORK SCORES IN CONTEST The human side of productivity is as much driven by employees' desire to perform well as it is by their awareness of company goals. To encourage both, McKesson Drug Company created "Productivity Bowl," a year-long contest among its 56 distribution centers designed to inspire employees to outdo their already outstanding performance.

"Quarterly awards and Super Bowl tickets added to the climate of competition and gave our employees a reason to perform as a team," says Jim Smith, manager in Rocky Hill, Connecticut, who attributes a whopping 28% improvement in warehouse productivity and a 32% increase in office productivity to better employee understanding of productivity objectives.

In Sacramento, Manager Bill Enos says that although he made no substantial physical changes in the facility, "employee initiative and pride led to significant improvements in absenteeism, overtime and lines of output per man-hour." And in Minneapolis, where a 17% increase in warehouse productivity was due in part to improved merchandise-handling methods designed by employees, Manager Jay Chalgren called the game "an excellent means of letting our employees know that we want their ideas about how to make their jobs easier."

Data-processing employees (clockwise from left) Helen Jarchow, Ed Cambridge and Judy Hall contributed to a 16% rise in office productivity in Sacramento.



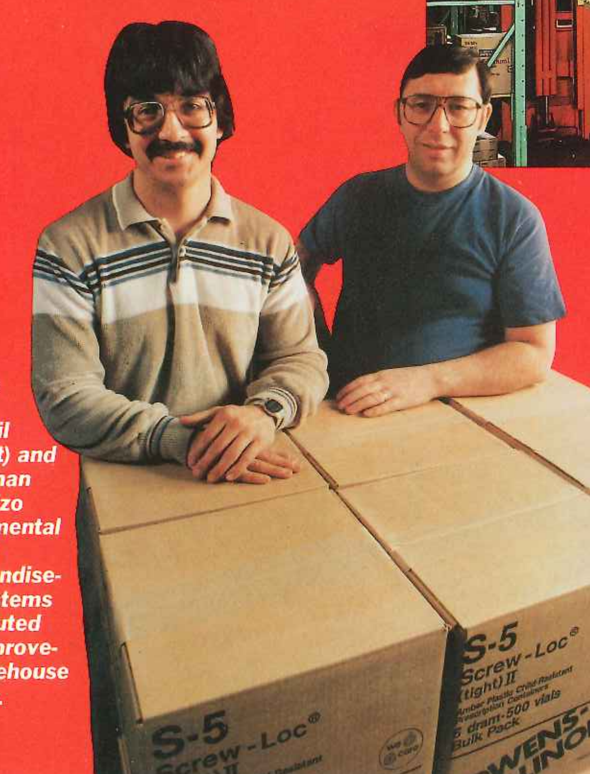
Monte Sprute, forklift operator in Minneapolis, helped come up with a more efficient method of handling incoming merchandise.

Productivity Bowl League Winners

lines per hour increase	office	warehouse
Rocky Hill	32.4%	27.9%
Minneapolis	14.5%	16.7%
Sacramento	16.1%	7.5%

McKesson Drug Company Productivity Trend—Office/Warehouse

Percent cumulative change using fiscal 1977 as base year.



Minneapolis Operations Manager Neil Rafferty (left) and warehouseman Dwane Perrizo were instrumental in designing new merchandise-handling systems that contributed to a 17% improvement in warehouse productivity.

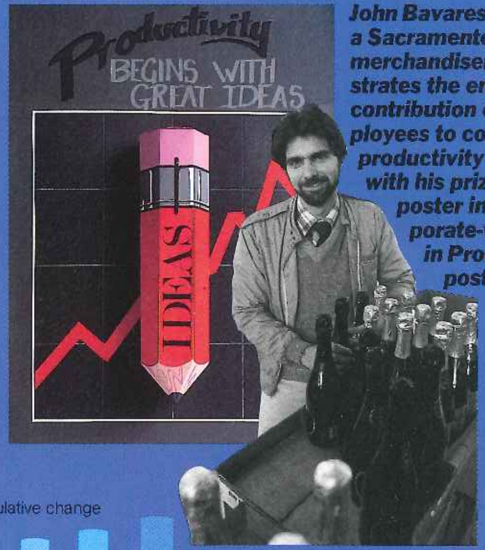
A computerized truck-routing program improved productivity by saving McKesson Drug $500,000 last year.

AUTOMATION BOOSTS PRODUCTIVITY Timely capital expenditures in new technology can often mean more profits for a growing business. When McKesson Wine & Spirits outgrew its Fort Worth wholesale house last year, the burgeoning business moved into the unoccupied half of a McKesson Drug warehouse in Arlington, some 20 miles away. With the aid of a new automated conveyor and materials-handling system, warehouse workers in Arlington stepped up their productivity by 24 cases per man-hour within six months.

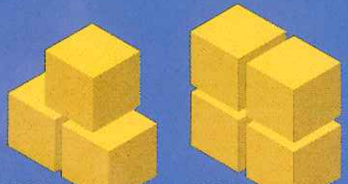
"We invested $125,000 to modernize that facility," says McKesson Vice President and National Operations Manager Bob Castello, "and in return increased productivity by more than one-third. The new system worked so well in Arlington, we began to look for ways to adapt it to other locations."

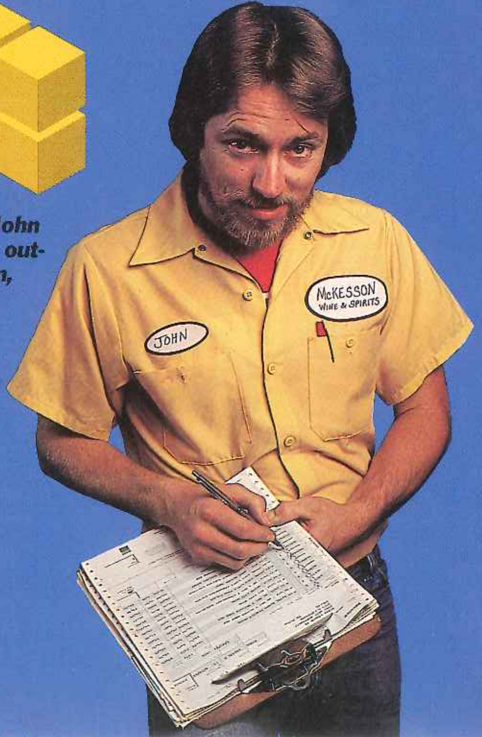
So when the Fresno, California, wholesale house acquired new product lines that increased its revenues by 25% in fiscal 1983, the company spent $100,000 on similar technology to accommodate the additional sales volume. "Once that installation is completed this summer," says Castello, "we expect productivity in Fresno to improve by at least 20% in fiscal 1984."

A conveyor system that telescopes out the warehouse door into delivery trucks has halved average truck-loading time at the Arlington facility.



John Bavaresco, Jr., a Sacramento wine merchandiser, demonstrates the enormous contribution of employees to company productivity efforts with his prize-winning poster in a corporate-wide "Pride in Productivity" poster contest.





Warehouse Supervisor John Morrison keeps track of outgoing orders in Arlington, where new materials-handling systems have boosted productivity by more than one-third in the warehouse.

In 1983, productivity overall at McKesson Wine & Spirits, measured in cases per man-hour, improved 79% over the 1979 base year.

Flow racks, like these at Palm Beach Crown in Florida, will improve productivity on the picking line in Fresno.

Seattle suburb of Kenmore. "I've been a McKesson customer since I opened for business 19 years ago," he says, "and I've used every new service McKesson has offered since then."

Like many independent drugstore operators, Ramsey says he'd have a hard time staying in business without McKesson's support. "The people at McKesson have always gone out of their way to encourage success in business," he says, "from the CosMcK service merchandisers who manage my various departments—pet supplies, hair and foot care products and cosmetics—to their advertising circular program for independent druggists. McKesson has genuinely worked to help me, as an independent businessman, survive in an economic climate where a lot of people don't."

With the help of McKesson Drug's family of computerized order-entry services and management systems, Ramsey and his 16 employees can spend more time providing what he calls "the personal touch that sets us apart" and less time managing inventory.

"We probably save a minimum of eight man-hours a week that were once spent ordering and putting away merchandise," says Ramsey. "Now it's as simple as a quick scan of the shelves with a computerized device that fits right into the palm of my hand."

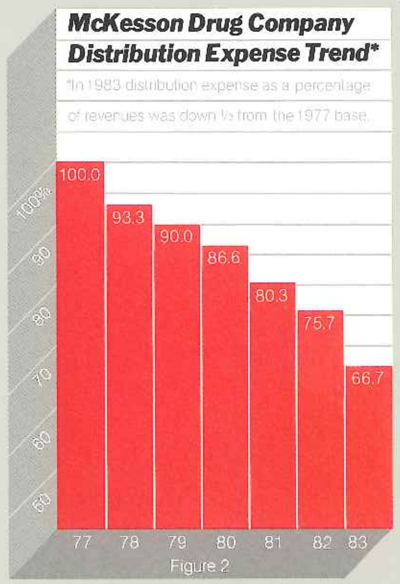
Using a hand-held Econoscan scanning device to record information from shelf labels, Ramsey transmits his order to McKesson over telephone lines at a rate of 600 items per minute. It is then filled overnight and delivered to him the next day in tote boxes arranged to correspond with the departments in his store.

"Time is money," Ramsey says, "and when I can save time, I know I'm increasing my profits."

Paced by advancements in the Drug Company, Foremost-McKesson's operating groups all made substantial strides in increasing productivity in fiscal 1983. "Already we've seen a real payoff to the corporation from innovative strategies and planned investments," says Art Weiner, vice president for Procurement, Transportation and Engineering. Weiner heads up a corporate-wide Productivity Task Force that has tracked each group's progress. Among last year's achievements:

- McKesson Drug continued to show a decrease in distribution expense, with a cumulative six-year downtrend of 33.3% (Figure 2);
- Warehouse productivity at McKesson Wine & Spirits improved 15% and distribution/delivery productivity increased 10%;
- At McKesson Chemical, tonnage handled per employee rose 14%;
- C.F. Mueller's pasta operation saved $1.4 million as a result of a number of productivity-improvement and cost-reduction programs;
- Pharmaceutical Card System converted to a new computer system that has speeded claims payments to pharmacies and reduced rejected claims by one-third.

From electronic order-entry systems to computerized delivery schedules, Foremost-McKesson has placed increasing emphasis on finding new ways to deliver more goods and services to its customers at a lower cost. In all of its distribution businesses, computer-driven improvements have paved the way for the corporation to make significant strides toward achieving that goal. Over the last five years, the company's central computer capabilities have quadrupled while hardware costs have only doubled. The company now spends about $65 million annually on data-processing resources—up 50% from 1980—and employs 550 people to operate its centralized computer systems.



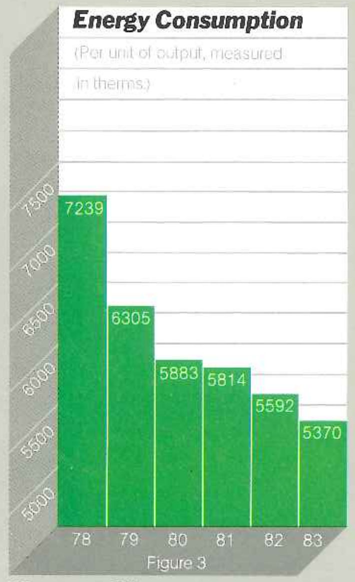
At McKesson Drug Company, more than 96% of all drug order lines are now processed through computerized systems compared to just 30% six years ago. "At the end of fiscal 1983," says Derek Hall, senior vice president of sales for McKesson Drug, "nearly 94% of our retail drugstore and hospital customers were using one or more of our Econo-Series electronic order-entry programs, compared to only 15% in 1975."

McKesson Wine & Spirits has placed an integrated order-processing system on line at 12 of its 36 wholesale houses. The system, developed exclusively to meet the business requirements of the Wine & Spirits' wholesale distribution business, is scheduled to be fully implemented by fiscal 1985. The decentralized system processes orders received from customers and sales representatives, generates invoices and picking documents, manages accounts receivable and provides purchasing and management information.

"Because regulations in the liquor industry vary from state to state," says Bob Castello, vice president and national operations manager for McKesson Wine & Spirits, "our system is designed to permit flexibility and adaptation in each of the 14 states where we operate. As a result, our operation will run more efficiently throughout our network of distribution houses."

The story is the same at McKesson Chemical, where an on-line, computerized order-entry system, developed and designed over a three-year period at a cost exceeding $5 million, will be implemented in its 63 distribution branches during the next 18 months.

"The system will supply on-line ordering services to our customers and will result in greater productivity improvements by providing data on safety, shipping, customer product needs, inventory and pricing on some 1,000 chemicals, as well as many other financial control programs," says Vince Staraci, vice president of finance and planning for the Chemical Group.



With computer technology advancing at breakneck speed, current systems and programs are only a prelude to things to come. Several new applications already are in the wings.

In mid-1983, McKesson Drug will test a computerized sorting system in its new Sacramento distribution center. The system, designed to sort orders into truck routes, will move merchandise automatically from a central location onto one of 11 conveyors, each dedicated to a prescheduled delivery route.

Alhambra Water is testing a Foremost-McKesson-designed computer system that centralizes customer service functions. "From anywhere in northern California," explains Larry Crisp, sales manager at Alhambra in San Leandro, California, "customers can use a toll-free number to call for service." Operators enter customer information into a terminal, and messages are printed out moments later at the appropriate service location. "We're running 125 trucks on 91 routes that serve 60,000 customers," says Crisp. "The computerized system brings us a long way from our old method of writing service orders on message pads and sending them to each of our ten locations by daily courier."

The Water Division has also launched a pilot program to test an on-truck computerized order-entry system at its Sparkletts operation in Los Angeles. Adapted from the hand-held device used by McKesson Drug customers, the system permits route drivers to enter customer information into a portable computer terminal carried in the delivery truck.

"The terminal will free up the time our sales representatives spend processing bulky paperwork," says Sparkletts General Sales Manager Norm Hefington, "and will leave them more time to service their customers. We can use that extra time to increase our sales."

The influence of computer technology has also changed the way goods are delivered to customers. McKesson Drug has started to use a computer-assisted truck-routing program that in the first year of testing netted a $500,000 savings. A similar program is being tested by the Water Division. McKesson Drug has also implemented a computerized inventory control program to track the company's $2 million investment in some 250,000 plastic tote boxes used to deliver merchandise to retail customers.

Warehouse automation has contributed to improved productivity in areas of materials-handling and delivery. In fiscal 1983 McKesson Drug invested an additional $7.5 million to upgrade, expand or replace ten of its distribution centers. Plans for fiscal 1984 include a capital commitment of $12.5 million to upgrade 17 more facilities. Likewise, warehouse improvements at McKesson Wine & Spirits contributed significantly to an overall 15% improvement in warehouse productivity over the previous year. (See story, page 6.)

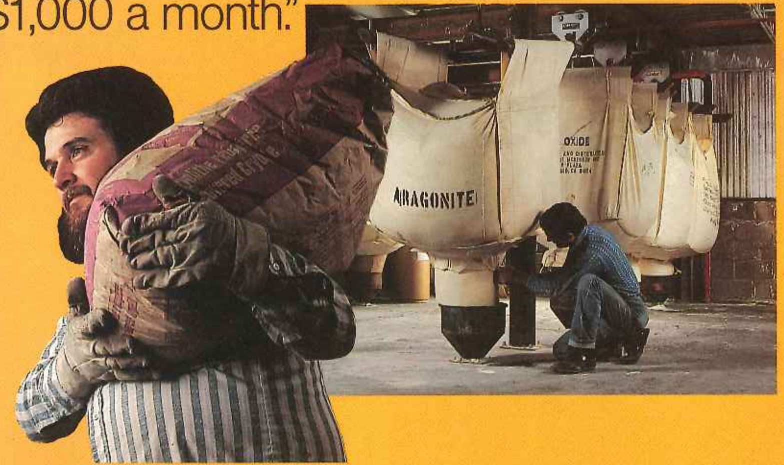
Energy conservation, another means of reducing the cost of moving products to the marketplace, continues to generate additional cost savings throughout the company. Since 1978, energy consumed per unit of output has declined by nearly 26%, and the long-term downward trend continued in fiscal 1983. (Figure 3)

Last year, the corporation allocated some $3.5 million to fund major conservation measures ranging from warehouse fans and ceiling insulation to

McKESSON TRIMS CUSTOMER COSTS Whether it's bagging, blending, drumming or recycling, adding value to distribution services at McKesson Chemical means improved productivity for its customers. In Williamstown, West Virginia, Fenton Art Glass Company has reduced labor costs by 50% in its chemical mixing operation by taking delivery of chemicals supplied by McKesson and some manufacturers in 2,000-pound Super Sacks.

"We converted our plant to suspend the bags from ceiling supports," says Purchasing Agent Mike Fenton, "so the chemicals empty directly into a weighing hopper through a pipe in the floor. We've eliminated the mess from dumping 100-pound bags and saved money by buying in bulk."

At the Sperry Corporation in Bristol, Tennessee, McKesson Chemical installed a 6,000-gallon bulk tank to hold spent computer component cleaning solvents that are picked up by McKesson Envirosystems for recycling. "We used to ship out our spent solvents in 55-gallon drums," says Sperry Plant Engineer Jim Smallwood. "With the new bulk tank, we save 98% of labor and material costs in the waste stream area. That's a savings of about $1,000 a month."



At Fenton Art Glass Company, delivery of chemicals in 2,000-pound Super Sacks has cut labor costs in half by eliminating the step of dumping 100-pound bags (above) into the mixing hopper one at a time.

$16,000
PAYBACK

Mike Fenton of Fenton Art Glass estimates that his company's $16,000 investment in Super Sacks and related hardware was paid back in less than a year.

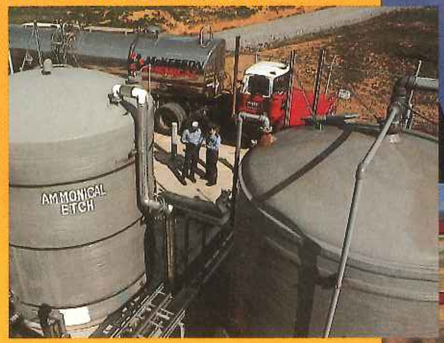
Time savings in man-hours for McKesson and customer using Super Sacks

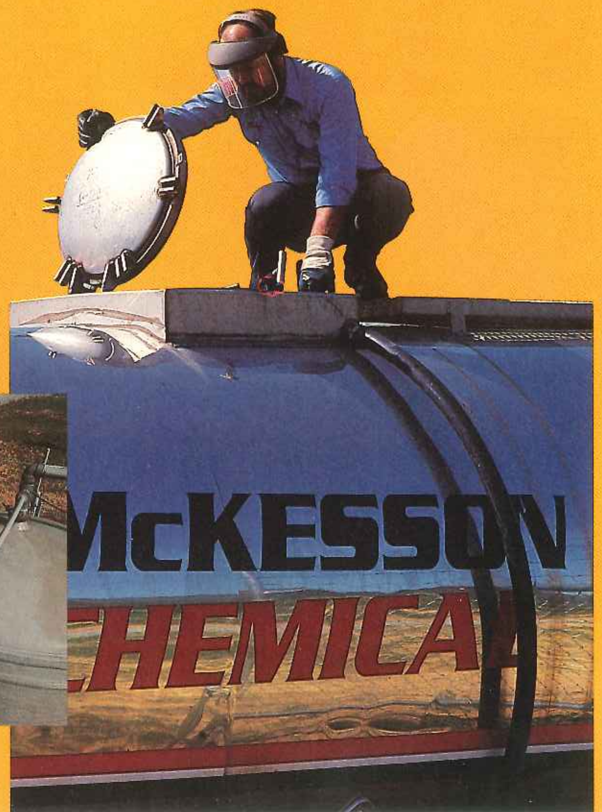
McKesson	Packaging	650
	Loading	90
Customer	Receiving	180
	Application	180
		1,100

Based on 3,250 Super Sacks vs. 65,000 100-pound bags.

McKesson Chemical's Engineering Director Carl Piercy estimates that McKesson and its customers will save one-third of a man-hour per ton by handling an estimated 3,250 tons of product in Super Sacks next year.

By receiving virgin chemicals in bulk and holding spent solvents in a tank installed by McKesson Chemical, Sperry saves about $1,000 a month in labor and drum costs. The spent solvents are picked up for recycling by McKesson Envirosystems.



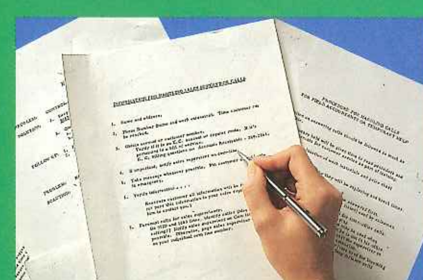


EMPLOYEES SHARE QUALITY IDEAS Computer power and new technology aren't the only answers to improving productivity. When managers at Sparkletts Water in southern California and Nevada want to know the best way to do a job, they go directly to the best source of information—their employees. Throughout the company, employees in 30 Quality Circles put their heads together at weekly problem-solving sessions to find solutions to job-related issues.

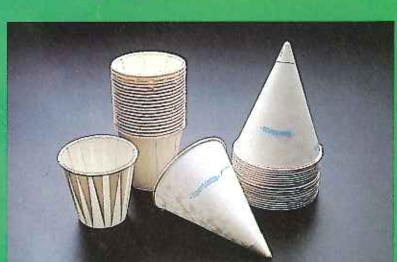
"Our employees appear to be more committed, more interested and more involved than ever in the quality of their work life," says Sparkletts Quality Circle Facilitator Dave Spencer. "We realize that it costs money to take people away from their jobs for an hour a week, but we've found that it really pays off in terms of improved employee morale and in the contribution these employees make to our efficiency."

At the Sparkletts facility in Las Vegas, one Quality Circle created new telephone report forms that save time and duplication. Another in Santa Ana, California, solved a paper cup inventory problem that netted annual savings of $10,000. And in Van Nuys, members of a Quality Circle authored a manual that has become the company-wide handbook on customer service.

A route accounting Quality Circle in Van Nuys helps solve customer service problems for Sparkletts. Clockwise from left are Carol Loftus, Loretta Johnson, Jean Ferrara, Lourdes Castillo and Loretta Coffler.



The Van Nuys Quality Circle (at left) authored a company-wide handbook on customer service.



A Santa Ana Quality Circle solved a paper cup inventory problem, saving the company $10,000 annually.

15% REDUCTION

Quality Circle Facilitator Dave Spencer says employees' sense of participation has contributed to a 15% decrease in sick time in Sparkletts' production areas.

The switch to a palletized electric cooler transportation system, devised by Quality Circle members (from left) Jim Doan, John Buchanan, Jim Wyatt and Dave Mejia in Gardena, will save Sparkletts at least $40,000 annually.

energy-efficient heat exchange units. While energy costs per therm last year rose nearly 11% over the previous year, primarily due to the increased price of natural gas, the corporation's expenditure on energy decreased 1% in the same period.

"This resulted in an estimated cost avoidance of more than $3 million," says Art Weiner. "That's how much more we would have spent had our operating people not done such a good job of conserving natural resources."

During fiscal 1983, McKesson Drug installed additional computer-controlled energy management systems in 12 facilities, bringing the total to 27. McKesson Wine & Spirits installed a similar system in its Honolulu wholesale house, where savings amounted to approximately 15% of total energy costs. Three other houses are targeted for implementation of the energy control system in the next year. Overall, the division achieved a 10% reduction in energy costs in fiscal 1983.

While energy conservation programs reduced operating expenses across the board in fiscal 1983, additional cost-reduction measures—from breakage control to accident prevention—have been instrumental in achieving greater productivity in all of Foremost-McKesson's businesses:

- McKesson Wine & Spirits designed programs that reduced the merchandise breakage rate as a percent of revenues by 17% in three years;
- McKesson Chemical's safety program has registered a 77% drop in recordable lost-time accidents over the last eight years;
- C.F. Mueller's short-interval scheduling program has brought in savings of more than $3 million since implementation in fiscal 1981 and last year reduced direct labor costs by $220,000 over the previous year.

McKesson Chemical has also found new ways to reduce labor costs—and thereby improve productivity—by implementing bulk delivery systems for its chemical customers. "Bulk delivery systems help our customers improve their productivity by reducing the time it takes to move the delivered product to its use area," explains Dick Davis, vice president of operations and materials management for McKesson Chemical. (See story, page 9.)

While Foremost-McKesson has invested millions of dollars in computer technology, automated warehouse systems and other physical improvements in productivity, Jim Johnston, vice president of Personnel, says, "We are even more committed to deepening our employees' involvement in decisions that affect their jobs. Our employees continue to play a vital role in productivity gains throughout our organization."

McKesson Chemical actively solicited employees' ideas about productivity improvement last year through questionnaires mailed to their homes. From their responses, ten categories for improvement—from scheduling delivery trucks to improved employee training—have been targeted by management teams which involve their employees in formulating strategies for improved operations.

In the Water Division, Sparkletts has implemented 30 Quality Circles since 1981 to promote employee involvement, improve morale and enhance the quality of work life for its employees.

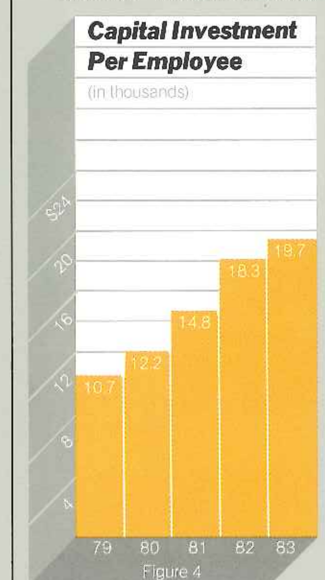


Figure 4

"Cost reductions that result from employee ideas have been a matter of evolution from our main purpose in launching the program," says Quality Circle Facilitator Dave Spencer. "The concept has had a very positive effect on absenteeism, turnover and productivity, and we can really see that our employees have taken on a greater sense of pride of ownership in their work." (See story, page 10.)

From improved employee morale to advancements in state-of-the-art technology, Foremost-McKesson continues to cultivate its resources and place increasing emphasis on improving efficiency. Over the last five years, the corporation has nearly doubled its capital investment per employee. (Figure 4)

"There are no boundaries when it comes to improving our productivity," says Foremost-McKesson President Tom Drohan. "We have already come a long way in making our organization more productive, but we are still looking at a number of opportunities to further increase our efficiency. With continued investments in computer technology and warehouse automation, and with the support and continuous input of our 12,700 employees, I am confident that fiscal 1984 will show even more substantial gains in our profitability through our investment in productivity improvement."

DRUG & HEALTH CARE GROUP: A record performance for the sixth straight year boosted revenues 14% to $2.2 billion, operating profit 16% to $56 million. New computerized retail services for drugstores, broader product lines, growing home health care markets and major productivity gains contribute to the continuation of strong growth trends.

(dollars in thousands)

Years ended March 31	1983	1982	1981	1980*	1979	1978
Revenues	**$2,177,569**	$1,903,661	$1,677,313	$1,428,660	$1,264,466	$1,110,208
Percent increase	**14.4%**	13.5%	17.4%	13.0%	13.9%	
Operating profit	**55,937**	48,207	39,234	31,258	31,824	22,637
Percent increase	**16.0%**	22.9%	25.5%	(1.8)%	40.6%	
Average capital employed	**226,940**	211,518	195,727	176,409	163,511	150,421
Return	**24.6%**	22.8%	20.0%	17.7%	19.5%	15.0%

*The last-in, first-out method of valuing inventories was extended to substantially all of the group's inventories in 1980.

In 1983 the Drug & Health Care Group set new records for the sixth consecutive year. The group reported a 14% increase in revenues to $2,177,569,000 and a 16% rise in operating profit to $55,937,000. The record performance resulted from extremely strong gains by McKesson Drug Company.

The Drug & Health Care Group serves the $36 billion-a-year retail drugstore market, as well as hospitals, food stores and mass merchandisers, with a wide range of products and services provided by three operating units:

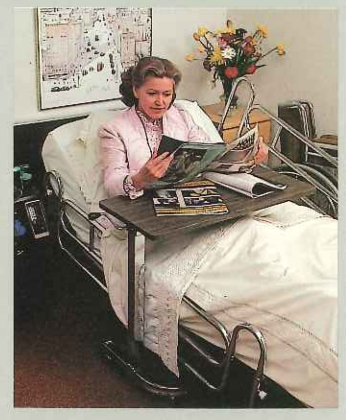
McKesson Drug Company, the largest distributor of pharmaceuticals, health and beauty aids and sundries, which offers retailers the wholesale drug industry's most complete assortment of products and computerized services.

Valu-Rite, the nation's largest voluntary chain of independent drugstores.

Skaggs-Stone, a general merchandise wholesale distributor serving 17 western states, including Alaska and Hawaii.

In March, the Federal Trade Commission canceled a 1967 consent decree in which Foremost-McKesson agreed to obtain FTC approval before acquiring any drug-related businesses. The new FTC ruling makes the future acquisition of drug-related businesses more feasible and opens up new opportunities for the Drug & Health Care Group's strategic development.

Key factors in the continuing growth of McKesson Drug are the expansion of the product lines it distributes and of its computerized retail services. Product categories sold by McKesson Drug make up over 63% of chain retail drugstore sales, an increase of 15 percentage points since 1978. The company continues to examine additional product areas where opportunities may exist.



Aggressive entries in home health care, new products including Valu-Rite natural vitamins, and expanded computer services contribute to the Drug & Health Care Group's continuing record growth.

Ninety-four percent of McKesson Drug's 14,000 retail customers use at least one of its automated order-entry systems for effective shelf management, reduced investment in inventory and computerized management information. The number of retail drugstores using Economost, McKesson Drug's most complete order-entry service, now stands at 8,000. In addition, customers use Econotone, a system which allows them to transmit orders directly to the company's computer center via a Touch Tone telephone or an order-entry device. Ninety-six percent of McKesson Drug's order lines were received through its computerized order-entry systems in fiscal 1983.

McKesson Drug provides retailers with a range of other value-added services. CosMcK, a service merchandising program for retailers, provides a service to stock, price-label, rotate and display store merchandise. Created in 1981, CosMcK now maintains 28 departments for retail drugstores, supermarkets and mass merchandisers, up from 20 in fiscal 1982. CosMcK categories range from over-the-counter drugs to pet care and school supplies. Merchandise is stocked and displayed according to computerized marketing information. The service is available to retailers in over 50% of McKesson Drug's 56 distribution centers and will be expanded in fiscal 1984.

Two of McKesson Drug's newest value-added services are Econoclaim and Econoprice. Econoclaim is a low-cost, computerized program which aids pharmacists in processing prescription claims. As pharmacists enter prescription information on an Econoclaim terminal, data is edited, audited and transmitted to a central computer. There, claims are completed automatically and a computer tape is prepared and forwarded to a state or insurance carrier for third-party reimbursement. Econoclaim dramatically reduces users' claim rejection rates and speeds processing for improved cash flow. Test-marketed in 1982, the service is now offered in nine states and will be introduced in six more in fiscal 1984.

Econoprice is a unique and rapidly growing service which helps pharmacists implement pricing strategies for prescription medications. This service was well-received in its introductory year.

In April 1983, McKesson Drug introduced a new pricing service for over-the-counter merchandise. Called OTC Price Update Service, the new program provides retailers with updated price stickers for over-the-counter items.

As a result of new computerized services which reduce distribution costs and increase customer service, wholesalers' share of the pharmaceutical market climbed from 44% in 1972 to 58% in 1981, while their share of the retail drug market has risen from 26% to 32% between 1972 and 1981. As more retailers recognize the benefits of using a full range of computer-based services, it is expected that they will turn increasingly to a single wholesaler to meet all their distribution needs.

During fiscal 1983 McKesson Drug expanded three of its distribution centers and improved materials-handling capabilities in seven. Since 1977, a total of $43 million has been spent on warehouse improvements. Total projects planned for fiscal 1984 call for a capital commitment of $12.5 million.

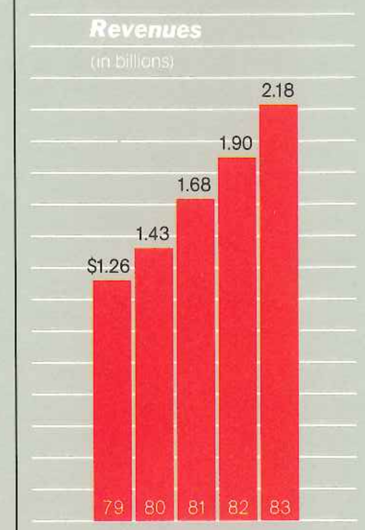
To meet the increasingly diverse merchandise requirements of retail drugstores and mass merchandisers, McKesson Drug continued to develop new product lines. Hi Lights, a proprietary line of costume jewelry distributed nationwide, continued to perform well in 1983, reflecting the solid growth of the product category. In 1982 drugstore jewelry sales reached $4 billion, an increase of 12.5% over 1981 levels. Other recent product-line entries, including fine fragrances and school supplies, continued to grow faster than total sales.

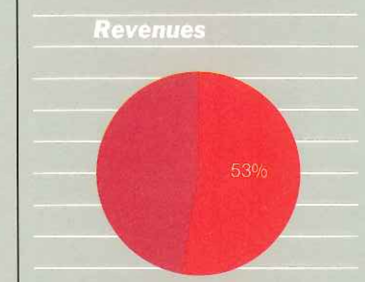
McKesson Drug is also positioning itself strongly in the rapidly growing home health care market, which is now estimated at $2.5 billion a year and is expected to exceed $6 billion by 1985. Sales of McKesson Drug's proprietary SunMark line of home convalescent aids and durable medical equipment increased 30% during 1983. The SunMark line now includes a large majority of the list of Medicare-approved items. McKesson Drug also offers special dealer assistance programs, including training in marketing, computer claims processing, and the maintenance and repair of sophisticated rental equipment. It also provides home health care dealers with computer systems to process Medicare claims and speed payments. In 1983 McKesson Drug's dealer assistance program was available in 35 of the company's distribution centers and will be available nationwide by the end of 1984.

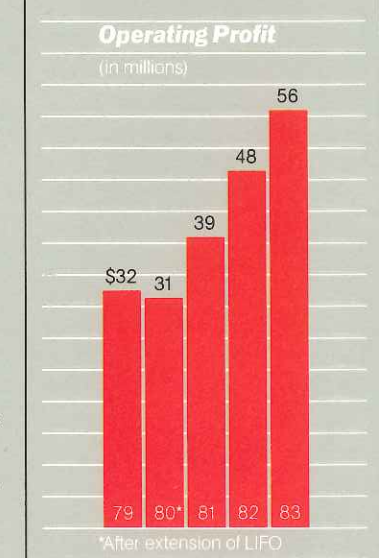
The group's commitment to supporting the vitality of independent and small chain drugstores is reflected in its Valu-Rite program. The nation's largest voluntary drugstore chain with 1,600 members, Valu-Rite offers members radio advertising programs; purchasing opportunities for private-label products; gift items; photo finishing and supplies; promotional flyers; advertising sales and special purchases; and management programs and services such as group insurance and auto leasing. Valu-Rite retailers are McKesson Drug's largest customer group.

In fiscal 1983 Valu-Rite memberships declined for the first time in six years, reflecting the recession's impact on the promotional spending of independent drugstores. While sales of Valu-Rite's promotional merchandise declined, operating results improved as a result of internal efficiencies.

Skaggs-Stone, the third distributing unit of the Drug & Health Care Group, is a major general merchandise wholesale distributor in the western United States. Skaggs-Stone's product line of more than 16,000 items includes housewares, hardware, automotive products and small appliances and electronics. In fiscal 1983, sales volume and operations were adversely affected by the economy. During the year, the company successfully implemented operating efficiencies and began offering its customers a computerized order-entry service.







WINE & SPIRITS GROUP: Revenues rose 2% to $873 million despite softness in the wine and spirits industry, while operating profit declined 3% to $31 million. Marketing and import businesses showed good gains with boosts from St. Pauli Girl beer, Folonari wines and Emmets, Ireland's Cream Liqueur, while wholesale operations achieved increased productivity, improved marketing systems and won new franchises.

(dollars in thousands)

Years ended March 31	1983	1982	1981	1980*	1979	1978
Revenues	**$873,352**	$859,882	$816,885	$765,530	$699,150	$632,281
Percent increase	**1.6%**	5.3%	6.7%	9.5%	10.6%	
Operating profit	**31,259**	32,132	26,297	23,099	27,803	19,975
Percent increase	**(2.7)%**	22.2%	13.8%	(16.9)%	39.2%	
Average capital employed	**95,280**	96,731	96,748	90,708	84,817	76,590
Return	**32.8%**	33.2%	27.2%	25.5%	32.8%	26.1%

*The last-in, first-out method of valuing inventories was extended to substantially all of the group's inventories in 1980.

Fiscal 1983 results demonstrated that while the Wine & Spirits Group is not recession-proof, it is recession-resistant. Despite softness in the wine and spirits industry, revenues edged up 2% to $873,352,000, while operating profit declined 3% to $31,259,000.

U.S. consumption of distilled spirits declined 2.5% in 1983. Wine consumption, which in recent years had been growing at an annual rate of 6%, grew only 1.8% last year.

While the group's wholesale operations reflected the softness of the industry overall, its marketing and import businesses showed good gains as a result of the success of a number of products positioned in high-growth market segments.

During the year, there was increased public awareness and concern over the problem of alcoholism and alcohol abuse. The Wine & Spirits Group subscribes to the view that alcoholic beverages should be available to those who wish to enjoy them but should be consumed in moderation. The group actively participates in programs of the alcoholic beverage industry to educate the public about the dangers of intemperate consumption and the resultant health and safety risks.

In fiscal 1983, the Wine & Spirits Group continued to pursue its long-range strategy for growth. The wholesale company further refined and implemented its *Value-Added Distribution* system and undertook training programs for management, sales and operations personnel. These programs both improved service to retail customers and increased warehouse and delivery productivity. The group's import and marketing companies continued to research consumer attitudes and trends and to invest marketing sums in products of promise and potential.

With strong sales of Folonari wines, St. Pauli Girl and San Miguel beers and a variety of products in high-growth categories, the Wine & Spirits Group demonstrates its recession-resistant qualities.

The group's six units operate in different specialized segments of the wine and spirits industry:

McKesson Wine & Spirits Co., the nation's largest wine and spirits wholesaler, distributes virtually all major brands of alcoholic beverages from one or more of its 36 distribution centers in 14 states to licensed retailers in its markets.

"21" Brands distributes and markets imported wines and spirits including Ballantine's Finest Scotch, Canadian Rich & Rare, Galliano liqueurs, Mount Gay rums, Folonari and Rosegarden wines, Tio Pepe Spanish sherry and Emmets, Ireland's Cream Liqueur.

Carlton Importing Company markets and distributes imported St. Pauli Girl and San Miguel beers.

Mohawk Liqueur Corporation produces and markets cordials, vodka and gin under the Mohawk label and imports and markets Martin's V.V.O. eight-year-old and Muirhead blended Scotch whiskies and Chartreuse liqueurs.

Galliano International is the group's marketing and sales arm in world markets outside the U.S. and in duty-free outlets in the United States.

Mosswood Wine Company markets chateau and estate-quality wines produced in Europe and California.

McKesson Wine & Spirits Co., the group's largest unit, recorded a modest increase in revenues but a decline in operating profit in 1983. The unit's results reflected the softness in the wholesale wine and spirits industry.

McKesson Wine & Spirits Co. distributes products on an exclusive or semi-exclusive basis and is responsible for obtaining appropriate levels of distribution and display for each product it is franchised to sell.

McKesson's proprietary *Value-Added Distribution* system was designed and implemented three years ago. It provides the general manager and suppliers of each McKesson wholesale house with timely reports on each of the products sold. As a result of these and other service initiatives, the company was awarded several new franchises in fiscal 1983.

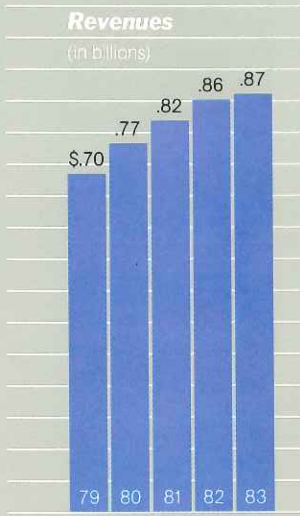
A specially designed management information and order-processing system is now installed in 12 of the company's 36 distribution centers. The new information system enables wholesale houses to provide better service to their retail customers. The system also provides houses and their suppliers with increased information on sales trends, inventory, productivity and the status of each product in the marketplace. McKesson Wine & Spirits will continue to implement the information system in fiscal 1984.

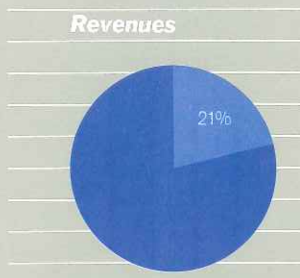
Propelled by the outstanding growth of Folonari wines; Emmets, Ireland's Cream Liqueur; and St. Pauli Girl beer, the group's marketing companies reported strong growth in fiscal 1983.

"21" Brands showed gains in sales and profits. Sales were down for all premium Scotch whiskies, and Ballantine's Finest Scotch whisky followed the industry trend despite an intense sales effort by the company and increased marketing support. Canadian Rich & Rare enjoyed another good year of growth, exceeding substantially the growth of the Canadian whisky category.

While sales of Liquore Galliano declined, "21" Brands' entry in the expanding Irish cream category, Emmets, achieved excellent growth. In its second year of existence, Emmets is reported to be the second largest-selling brand in the category. Mount Gay rum, a premium specialty rum from Barbados and the favorite rum of the U.S. yachting community, again reported increased sales. Tio Pepe, the world's leading dry sherry, enjoyed another year of sales growth and expanded distribution.

Folonari wines had an exceptionally successful year, outpacing the 10% annual growth of the imported wine category. The third largest-selling imported table wine, as reported by *Impact,* an industry publication, Folonari was supported by a new television advertising campaign. During fiscal 1983, "21" Brands introduced Folonari Orvieto, a light, soft, dry white wine, in selected markets as an extension of the Folonari line.





Carlton Importing Company, the group's beer importing and marketing unit, recorded excellent results for its two major brands, St. Pauli Girl from Germany and San Miguel from the Philippines. U.S. sales of St. Pauli Girl, the fifth largest-selling imported beer, soared more than 50% compared with 10% growth for the imported beer category. Much of the success can be attributed to the award-winning "You Never Forget Your First Girl" advertising campaign, along with a substantial increase in advertising spending.

Carlton had a good first year as the importer of San Miguel, a leading brand in the Far East and southern Europe. Sales progress clearly indicated that this brand can eventually become a leading import.

During the year, Carlton, through its new product development unit, Eagle Importing Company, reached an importation and marketing agreement with the leading Swedish brewer, A.B. Pripps.

Mohawk Liqueur Corporation reported flat sales but gains in profitability, primarily as a result of major productivity improvements. During the year, the company achieved an 8.3% increase in cases produced per man-hour as a result of improved production line efficiencies. Mohawk has achieved productivity improvements of 123% over the past three years. The company moved to a new, modern facility in Novi, Michigan, at the end of fiscal 1983 and expects still further productivity improvements as a result.

Demand for peppermint schnapps products continued to grow throughout the country, despite an overall decline in cordials. In 1983 Mohawk introduced two new labels: White Birch, a premium peppermint schnapps made by Mohawk, and Wintergarten, a premium imported schnapps produced in Germany.

Mosswood Wine Company progressed according to plan in fiscal 1983. Mosswood is a small unit established in 1977 to provide a source of chateau and estate-quality wines to McKesson wholesale houses which lacked a reliable supply of such products. During the year the company expanded distribution of its products to a number of new markets. Paul Cheneau Methode Champenoise Blanc de Blanc Sparkling wine showed strong sales increases and emerged as the best-selling wine in Mosswood's portfolio.

CHEMICAL GROUP: Affected by depressed activity in many basic industries, revenues declined 4% to $603 million and operating profit dropped 30% to $15 million. With upgraded facilities and fleets, expanded geographical coverage, increasingly efficient operations and recycling capabilities, the group is well-positioned to benefit from improvement in the economy.

(dollars in thousands)

Years ended March 31	1983	1982	1981	1980	1979	1978
Revenues	**$603,276**	$628,207	$576,775	$505,107	$435,067	$375,688
Percent increase	**(4.0)%**	8.9%	14.2%	16.1%	15.8%	
Operating profit	**14,907**	21,416	21,039	17,110	16,561	14,969
Percent increase	**(30.4)%**	1.8%	23.0%	3.3%	10.6%	
Average capital employed	**74,198**	62,813	62,598	64,758	60,754	40,746
Return	**20.1%**	34.1%	33.6%	26.4%	27.3%	36.7%

The U.S. chemical industry, along with many other basic industries, was severely affected by the current economic recession. With activity in housing, autos, mining and the oil and gas industries severely depressed, chemical volume declined and prices for many products dropped sharply in fiscal 1983. As a result, revenues of the Chemical Group, the nation's largest distributor of chemicals, were down 4% from 1982 levels to $603,276,000, and operating profit fell 30% to $14,907,000.

The Chemical Group has continued to upgrade facilities and truck tanker fleets, expand geographical coverage in major industrial chemical-use areas and broaden the scope of its distribution and product capabilities. These steps, combined with leaner, more efficient operations resulting from cost-cutting and productivity improvement measures, position the Chemical Group for strong long-term growth.

The Chemical Group consists of three principal units:

McKesson Chemical Company is the nation's leading full-line distributor of industrial chemicals with 63 distribution centers servicing all 50 states.

McKesson Envirosystems Company recycles solvent waste streams from industrial customers and then markets the refined products, primarily through McKesson Chemical Company.

McKesson Environmental Services is a newly organized technical services consulting organization that performs environmental audits as well as diagnostic and monitoring services and assists clients in meeting their regulatory and compliance programs.

By providing customers with chemical recycling facilities and expertise (top), scientific analyses such as gas chromatography (center), and distribution services including drumming (bottom), bagging and blending, the Chemical Group provides a full range of value-added services.

The long-term outlook for the chemical wholesale market continues to be favorable. The distributors' share of the total U.S. chemical market grew at better than 15% per year during the 1976-1980 period. Chemical distributors have increased their share of the expanding U.S. chemical market to over 20% in 1983, and that share should continue to rise significantly, according to a recent independent study. In 1983 McKesson Chemical maintained its estimated 25% share of the top six national chemical distributors' market, up from 20% in 1976, despite extremely competitive conditions.

McKesson Chemical has expanded the value-added concept in chemical distribution by providing services such as bagging, drumming, blending and recycling, as well as other special services for its customers. In Carlin, Nevada, for example, McKesson Chemical operates a 24-hour-a-day service to transload bulk chlorine from rail cars to specially constructed transports which are then delivered to remote gold mining operations. McKesson Chemical also helps its suppliers develop new markets for key chemical products. McKesson Chemical's program for finding new customers for food ingredient products, a strategic focus area for McKesson, has resulted in a substantial increase in food chemical sales.

Food chemicals tend to be somewhat recession-resistant and help McKesson Chemical offset some of the economy's negative impact. McKesson Chemical works with the corporate Research Center in Dublin, California, to help food ingredient producers in new application and development efforts.

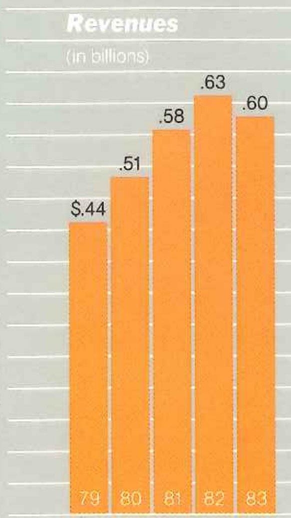
Another value-added service is McKesson Chemical's safety management program. McKesson Chemical conducts chemical safety audits of customers' plants upon request and provides seminars and training on safe handling, storage, use and disposal of chemicals. The company's emphasis on safety has had a dramatic impact upon its own personnel and property protection. During the past eight years, lost-time accidents have been reduced by 77%.

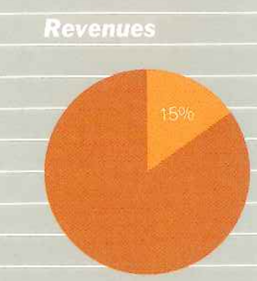
McKesson Chemical's national accounts program, launched in 1976, again produced strong revenues in fiscal 1983, despite the recession. The most complete national accounts program in the industry, it provides a value-added service by centrally coordinating distribution to customers who require deliveries at multiple locations.

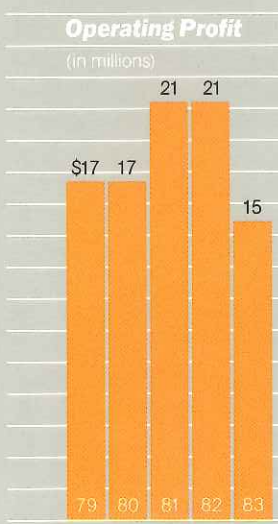
In 1983 McKesson Chemical's on-line order-entry system underwent pilot testing and is scheduled to be operating nationwide by December 1984. The computer system will streamline ordering, inventory control, purchasing, accounts receivable, delivery, and invoicing procedures. It will provide instantaneous information on inventory, customer needs and data on the safe handling of each of the more than 1,000 chemical products McKesson Chemical sells.

To ensure that its industrial solvents meet the stringent standards of the industries it serves, McKesson Chemical has installed highly sensitive gas chromatographs, used for analyzing chemical components, in its key field operations. The sophisticated instruments are linked by dedicated telephone lines to a computer at the corporate Research Center. There, scientists interpret the results and check for compliance with product specifications. This service will be expanded in fiscal 1984.

McKesson Envirosystems has brought the Chemical Group's nationwide distribution network and its safety, marketing and sales expertise to the field of chemical recycling. Created in 1981 to reclaim solvent waste streams, McKesson Envirosystems provides a new value-added service and an attractive recovery alternative for the group's solvent customers. After first analyzing a customer's spent solvent stream, McKesson Envirosystems collects spent chemicals,







removes contaminants and then markets the reclaimed chemicals under the McKesson label. McKesson Chemical sales representatives identify potential recyclable solvent streams to help achieve maximum operation of McKesson Envirosystems' plants.

The decline in chemical prices and sales had a softening effect on the prices of recycled chemicals, resulting in decreased revenues and profits for McKesson Envirosystems in fiscal 1983. The slowdown in industrial activity reduced the chemical solvent streams available for recycling, leading to heightened competition among the nation's chemical recyclers.

The Newark plant of McKesson Envirosystems sustained damage from an explosion and fire last October. Consideration is currently being given to replacing the damaged equipment pending the necessary approvals from regulatory authorities.

The future outlook for chemical recycling continues to be positive. Recent regulations under the Resource Conservation and Recovery Act of 1976, modified in 1980, require the nation's chemical industry and its thousands of customers to dispose of hazardous chemicals safely. Recycling offers an environmentally safe, economical alternative for industries which use solvents for processing and manufacturing. In addition, recycling of spent solvents conserves finite energy resources, since nearly all solvents are derived from hydrocarbons.

The majority of recyclers are small-capacity operations which may find it difficult to meet increasingly stringent federal and state standards without substantial capital outlays and better operating procedures. With a total annual capacity of more than 25 million gallons, McKesson Envirosystems is one of the largest recyclers in the industry.

At the start of fiscal 1984, the Chemical Group added McKesson Environmental Services to its operations. Environmental Services, established in October 1981, formerly operated as part of the corporate Research Center. Staffed by hydrogeologists, field engineers and laboratory analysts, McKesson Environmental Services provides engineering and scientific expertise to conduct facility audits, field investigations, environmental assessments and chemical management programs. McKesson Environmental Services has extensive analytical laboratory facilities in Dublin, California, where several thousand environmental samples are analyzed yearly.

FOODS GROUP: Sale of Foremost Dairies represents a major step toward focusing marketing efforts on branded consumer products. Concern over the quality of drinking water and the emphasis on fitness and nutrition are seen as spurs to increased consumption of bottled water and pasta. Revenues fell 4% to $320 million, operating profit 10% to $32 million.

(dollars in thousands)

Years ended March 31	**1983**	1982	1981	1980*	1979	1978
Revenues	**$319,609**	$333,095	$301,200	$260,348	$235,737	$210,365
Percent increase	**(4.0)%**	10.6%	15.7%	10.4%	12.1%	
Operating profit	**32,158**	35,635	32,933	22,817	23,598	26,292
Percent increase	**(9.8)%**	8.2%	44.3%	(3.3)%	(10.2)%	
Average capital employed	**192,533**	182,593	174,454	169,320	163,260	162,864
Return	**16.7%**	19.5%	18.9%	13.5%	14.5%	16.1%

*The last-in, first-out method of valuing inventories was extended to substantially all of the group's inventories in 1980.

With the sale of Foremost Dairies in December 1982, the Foods Group took a major step toward focusing its marketing efforts on branded noncommodity products.

Two of the group's three divisions are the market leaders in major food categories: *Foremost-McKesson Water Division* is the nation's largest distributor of bottled drinking water to homes and business establishments. The division operates under the proprietary labels Sparkletts, Alhambra and Crystal. It also markets water via 2,200 Aqua-Vend water-vending machines in the western and Sunbelt states.

Foremost-McKesson Grocery Products Division produces and markets pasta products through the C.F. Mueller Co., the nation's largest dry pasta company with a 23% share of its markets in the East, Midwest and South.

Foremost Food Ingredients Division markets protein, lactose and other products derived from whey, a byproduct of the cheesemaking process, to pharmaceutical firms, food processors and infant formula manufacturers. The division also markets dehydrated onions, garlic and chili peppers to seasoning bottlers, food processors and food-service establishments.

The group's revenues and operating profit declined in fiscal 1983. Revenues fell 4% to $319,609,000, with the decline attributable to the disposition of two product lines which contributed approximately $25 million to fiscal 1982 revenues. Profitability fell 10% to $32,158,000, stemming in large measure from weaker pricing for pasta products and losses associated with the expansion of Aqua-Vend.

New pasta products and bottled and machine-vended water businesses position the Foods Group to reap the benefits of consumer interest in health and fitness.

Two main consumer trends continue to influence the Foods Group's long-range strategy. First, consumers are increasingly questioning the quality and taste of their municipal drinking water and are turning to bottled water as a pure and good-tasting alternative. Second, with their increasing emphasis on fitness and nutrition, Americans are becoming more aware of pasta as an excellent source of complex carbohydrates, which are nutritionally superior to simple sugars and fats as a source of energy. In 1981, pasta consumption in the United States climbed to two billion pounds, a volume second only to Italy's.

As the nation's leading supplier of bottled drinking water, the group's Water Division is well-positioned to capitalize on growing consumer concern over the quality of public drinking water. From 1975 to 1981, per-capita consumption of bottled water more than doubled from 1.15 gallons to 2.43 gallons, as more consumers preferred bottled drinking water to tap water. A recent independent study forecast that bottled water consumption will increase to more than 600 million gallons by 1992.

In fiscal 1983 sales of the division's three brands of bottled water—Sparkletts in southern California, Nevada and Texas; Alhambra in northern California and Crystal in Arizona—increased 12%, despite the coolest and wettest weather in decades in the western United States. The recession had some dampening effect on new business development, but the bottled water industry is generally considered to be resistant to economic pressures.

The Water Division continued to achieve major productivity improvements in fiscal 1983 through stepped-up employee awareness programs and materials-handling modifications. The division reduced labor hours 10% by installing automated bottle-stacking machinery in most plants as well as an automated conveyor system in one of its bottling facilities. A new employee safety program resulted in a 30% reduction in industrial accidents and a 76% reduction in lost-time accidents.

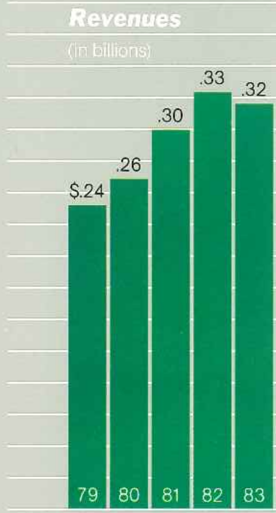
The division has also pioneered new ways of marketing high-quality water to consumers by developing and marketing Aqua-Vend. The units are actually mini-purification plants which use ultrafiltration and deionization processes to purify municipal drinking water. Natural food-grade minerals are added back to the purified water to give it a pleasant taste. The purified water is then dispensed into the customer's own container for home consumption.

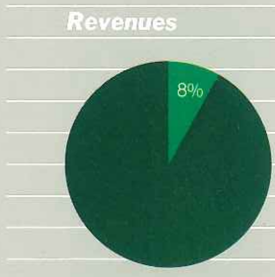
Placed in high foot-traffic locations at supermarkets, Aqua-Vend eliminates the costs of containers and delivery and expands the market for purified water. Water from Aqua-Vend machines costs consumers approximately 50% of the price of packaged water sold in supermarkets.

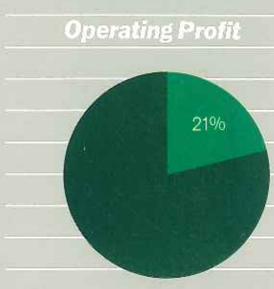
In fiscal 1983 the Water Division withdrew Aqua-Vend machines from test markets in Boston and Denver because consumer response failed to meet desired objectives.

In 1983, the Foods Group's Grocery Products Division recorded a decline in revenues, primarily resulting from the sale in 1982 of two non-pasta products: Milkman, a low-fat dry milk powder, and Magic Shell ice cream topping. Profits remained flat in 1983 as C.F. Mueller Co. introduced a new line of products and launched a competitive pricing policy to counter market challenges from private-label and imported pasta.

Mueller's branded macaroni, rigatoni, spaghetti and other pasta products are sold in 22 states which account for 60% of U.S. pasta consumption. Over the past several years, U.S. pasta consumption has been growing at about 3% per annum. However, as a result of pasta's growing acceptance in this country, the $1 billion pasta market is expected to increase to $3 billion by 1991, according to a recent independent research study. Mueller's is well-positioned to reap the benefits of this anticipated growth in consumption.







In 1983 Mueller's entered the prepackaged pasta side dish market with Pasta Shapes & Sauces, a new line of pasta and sauce combinations in five flavors. Introduced in all Mueller's markets in January, Pasta Shapes & Sauces has met with strong acceptance by consumers. Mueller's well-established sales force, substantial name recognition and strong advertising presence in each of its markets have been instrumental in the product's successful introduction.

The new pasta research laboratory at the corporate Research Center in Dublin, California, is developing and testing a range of improved dry pasta products. Opened last year, the laboratory has in development a number of new Mueller's products.

C.F. Mueller also pursued major cost-reduction programs in 1983 which are expected to yield substantial savings over the next several years.

In fiscal 1983, the Food Ingredients Division reported a modest decline in sales, but profitability improved primarily as a result of an increase in the earnings of the Gentry dehydrated vegetable business. An oversupply of milk and cheese led to depressed prices for the division's commodity whey products.

At year end, food manufacturers were introducing a considerable number of new products, a trend which should have a positive effect on the dehydrated vegetable market in fiscal 1983. Rising consumer interest in ethnic foods is also likely to increase sales of dehydrated vegetables and seasonings.

The division's geothermal-powered vegetable dehydrating plant located near Reno, Nevada, helped reduce energy costs in fiscal 1983.

As part of its efforts to find new uses for whey and its fractions, the division formed a joint-venture agreement with Industrial Genetics, Inc., of Columbia, Maryland, to develop a new whey-based culture medium to be used by the pharmaceutical industry in the manufacture of antibiotics and enzymes, as well as other proprietary products derived from whey fractions.

DEVELOPMENT GROUP: Despite the highest unemployment levels since the 1930s, Pharmaceutical Card System posted record gains in sales and profits and achieved major productivity improvements. Armor All showed good gains despite the decline in consumer spending, and the California Culinary Academy's continued growth accelerates expansion plans.

(dollars in thousands)

Years ended March 31	1983	1982	1981	1980	1979	1978
Revenues	**$107,675**	$99,113	$87,901	$80,543	$46,719	$47,507
Percent increase	**8.6%**	12.8%	9.1%	72.4%	(1.7)%	
Operating profit	**18,543**	19,591	19,108	14,013	10,288	9,867
Percent increase	**(5.3)%**	2.5%	36.4%	36.2%	4.3%	
Average capital employed	**66,217**	63,380	61,335	61,963	44,168	42,181
Return	**28.0%**	30.9%	31.2%	22.6%	23.3%	23.4%

The Development Group was created in fiscal 1982 to provide management direction and access to corporate resources for small, entrepreneurial, growth-oriented businesses already owned or to be acquired by the corporation and to seek new business opportunities that would enhance existing operations. The group serves as a logical entry point for smaller units which need special handling before becoming part of existing operations. It reviewed more than 100 acquisition candidates in fiscal 1983.

For financial reporting purposes, the group also includes the International Division, although Development and International are managed separately.

In fiscal 1983, the combined group reported a 9% rise in revenues to $107,675,000 and a 5% decline in operating profit. A strong performance by the Development Group was offset by declines in overseas operations.

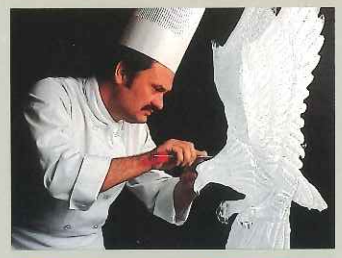
The Development Group consists of three businesses:

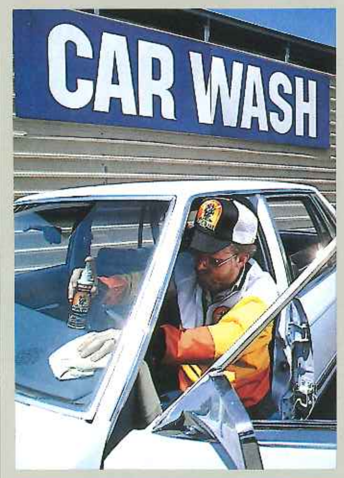
Armor All Products, maker of automotive and household appearance-protection products.

Pharmaceutical Card System, which processes payments of third-party prescription drug claims for insurance companies and employee and union groups and provides market research data on pharmaceutical sales and market share to manufacturers and others.

California Culinary Academy, located in San Francisco, the leading school for professional chefs in the western United States and one of two schools in the nation for professional wine stewards.

Despite the dampening effect of the recession on discretionary consumer spending,





Expansion plans for the San Francisco-based California Culinary Academy, strong sales for Armor All Products and its recent entry into the nationwide car wash market, and the record growth of Pharmaceutical Card System reflect continued strong performance by the Development Group.

Armor All Products stepped up advertising and marketing outlays approximately 15% and continued to show good gains in sales and profits in fiscal 1983.

Armor All Protectant, the company's primary product, protects and enhances the appearance of most porous materials, including rubber, leather, vinyl, plastic, plexiglass, acrylics and paint, replacing a substantial number of automotive and household chemicals. For the second consecutive year, Armor All Protectant was the top-selling automotive product in the United States, according to a leading national automotive product audit.

During the year, Armor All Products launched a program to market Armor All Protectant to the car wash and automotive industries. Some 600 full-service car washes nationwide are now offering customers Armor All interior and exterior treatments. The company is also test marketing Armor All applications at service stations and automobile dealerships in addition to coin-operated vending machines which dispense four-ounce packages of Armor All Protectant at self-service car washes.

Despite the highest unemployment levels since the 1930s, Pharmaceutical Card System (PCS), a prescription drug claims processing service, enjoyed another record-breaking year. The company showed high growth in both sales and profits and reported a record 21% increase in the number of claims processed to more than 27 million. PCS now has 2.3 million card holders and covers more than 6.5 million individuals.

PCS cards are issued as an employee benefit by more than 50,000 employers. More than 49,000 pharmacies, representing over 80% of the nation's retail drugstores, fill prescriptions for PCS card holders, usually at a cost of $3 or less. Coverage is offered through 155 insurance companies in the U.S. and Canada.

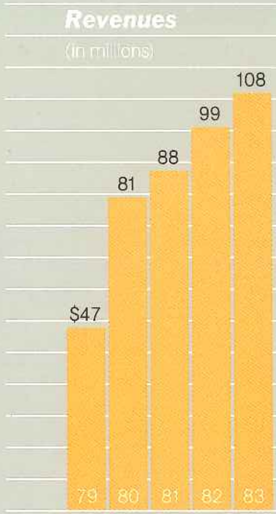
To provide for the future needs of its fast-growing business, PCS broke ground in November for a new $10 million headquarters building in Scottsdale, Arizona. The new building will be finished in November 1983 and is expected to improve the productivity of PCS. During the year, PCS also completed the conversion to a new IBM computer system, which has already led to major productivity gains.

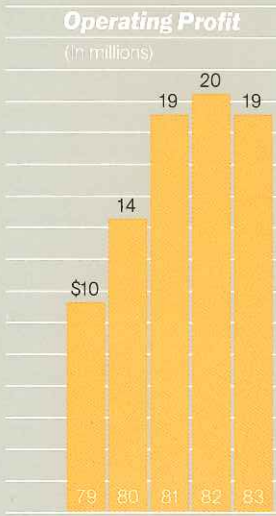
Pharmaceutical Data Services (PDS), a unit of PCS, utilizes information collected from retail pharmacies as a base for the pharmaceutical marketing information it provides to major drug manufacturers, financial institutions and government agencies. PDS analyzes the flow of pharmaceutical products through the health care system. The company doubled its sales for the second consecutive year and is developing a range of new services, including detailed analyses of prescription drug use in hospitals and nursing care facilities.

During the year, PCS acquired The Dresden/Davis Organization, a Philadelphia-based medical research company which collects data on drugs prescribed by physicians. The acquisition brings PDS closer to becoming a full-service market research company and the nation's leading supplier of health care data.

Complimentary Prescription Service, which offers an alternative to the physical distribution of drug samples through doctors' offices, issued nearly eight million complimentary prescriptions for drug manufacturers, up 8% from 1982 levels.

The Development Group is also exploring a number of employee-benefit services similar to Pharmaceutical Card System which in the future could form the nucleus of a new business. The group has acquired an interest in National Optical Service, Inc., a membership eye care service with five outlets in Arizona and Texas. Five new outlets are planned for fiscal 1984. Participating employers pay a fee which entitles employees to purchase eyeglasses from a National Optical outlet at cost plus a dispensing fee. Retail drugstores may now enroll their customers in the service through a new marketing program designed to recruit individual members.





The California Culinary Academy reported excellent results in its first full year of operation as a unit of the Development Group. The Academy offers a rigorous 16-month program in French and continental cooking, taste evaluation, wines and management theory. Its 250 students prepare and serve meals at its popular San Francisco restaurant. Last fall the school launched the California Sommelier Academy, one of only two schools in the nation for professional wine stewards, as a value-added service to the Wine & Spirits Group. With the cooking school fully enrolled with a one-year waiting list of applicants, the Academy is accelerating its expansion plans in fiscal 1984, and related new food and wine opportunities are being explored.

International Division

Earnings of the International Division declined in fiscal 1983. This was primarily the result of lower earnings from dairy operations in Argentina, which is suffering from severe internal economic recession.

In its second year of operation, the division's dairy in Saudi Arabia reported excellent sales and earnings. Units in Japan and Thailand also performed well. The division's pharmaceutical operations again made important contributions to the group's earnings. Operations in Central America and Ecuador recorded very strong results despite economic decline in those regions.

Discontinued Operation

As part of its program to achieve an orderly divestiture of its homebuilding operations, the corporation formed joint-venture partnerships in October 1982 to divest the realty assets of Ditz-Crane of Arizona, Inc., headquartered in Phoenix, and Crocker Homes, headquartered in Dublin, California. Not included in the joint venture is Ditz-Crane, Inc., a northern California homebuilder which is being offered for sale separately.

The division, regarded as one of the best-managed operations in the industry, lost $647,000 in 1983, the worst year in the real estate business since World War II. Operations were adversely affected by high interest rates, which hovered near 16½% until midyear.

By year end, however, the decline in interest rates and the increasing availability of home mortgages led to a strong last-quarter increase in sales. At the end of 1983, the division had only 23 unsold completed houses, down from 108 in 1982.

With the current real estate upturn, the division expects to complete the sale of Ditz-Crane, Inc., in fiscal 1984.

SIX-YEAR HIGHLIGHTS

CONSOLIDATED OPERATIONS

(in thousands except per share amounts)

Years ended March 31	1983	1982	1981	1980[1]	1979	1978
Revenues	**$4,081,481**	$3,823,958	$3,460,074	$3,040,188	$2,681,139	$2,376,049
Percent increase	**6.7%**	10.5%	13.8%	13.4%	12.8%	
Gross profit	**692,379**	655,549	584,763	520,390	459,476	398,506
Percent of revenues	**17.0%**	17.1%	16.9%	17.1%	17.1%	16.8%
Operating profit	**152,804**	156,981	138,611	108,297	110,074	93,740
Percent increase	**(2.7)%**	13.3%	28.0%	(1.6)%	17.4%	
Percent of revenues	**3.7%**	4.1%	4.0%	3.6%	4.1%	3.9%
Addition to LIFO reserve	**20,495**	27,284	24,503	19,104	418	1,231
Interest expense	**31,565**	31,285	25,364	25,578	21,432	19,589
Income before taxes	**114,813**	119,481	98,254	75,753	85,045	70,565
Percent increase	**(3.9)%**	21.6%	29.7%	(10.9)%	20.5%	
Percent of revenues	**2.8%**	3.1%	2.8%	2.5%	3.2%	3.0%
Taxes on income	**51,605**	53,657	42,572	31,974	39,849	36,478
Effective tax rate	**44.9%**	44.9%	43.3%	42.2%	46.9%	51.7%
Income after taxes						
Continuing operations	**63,208**	65,824	55,682	43,779	45,196	34,087
Percent increase	**(4.0)%**	18.2%	27.2%	(3.1)%	32.6%	
Percent of revenues	**1.5%**	1.7%	1.6%	1.4%	1.7%	1.4%
Discontinued operations	**(6,715)**	7,713	13,573	22,999	12,544	10,733
Net income	**56,493**	73,537	69,255	66,778	57,740	44,820
Average preferred stocks and common stockholder equity	**492,254**	456,905	443,878	410,881	358,368	318,354
Return[2]	**12.8%**	14.4%	12.5%	10.7%	12.6%	10.7%
Average capital employed[3]	**870,259**	793,823	758,120	722,960	697,676	658,845
Turnover[4]	**4.7**	4.8	4.6	4.2	3.8	3.6
Return[2]	**7.3%**	8.3%	7.3%	6.1%	6.5%	5.2%
Total dividends paid	**40,292**	35,811	32,400	26,360	19,775	16,983
Fully diluted earnings per common share						
Continuing operations	**$3.44**	$3.72	$3.11	$2.50	$2.59	$2.01
Percent increase	**(7.5)%**	19.6%	24.4%	(3.5)%	28.9%	
Discontinued operations	**(.34)**	.42	.74	1.32	.76	.62
Total	**$3.10**	$4.14	$3.85	$3.82	$3.35	$2.63
Shares on which earnings per common share were based	**19,596**	18,644	18,289	18,019	17,958	17,598
Common shares outstanding-at year end	**16,690**	16,020	16,004	15,044	13,534	12,576
Dividends per common share	**$2.40**	$2.24	$2.00	$1.67	$1.24	$1.07½
Book value per common share	**$29.70**	$29.01	$28.37	$26.10	$23.81	$21.11

[1]The last-in, first-out method of valuing inventories was extended to substantially all of the company's inventories in 1980.
[2]Based on income from continuing operations.
[3]Capital employed consists of total debt, deferred taxes on income, preferred stocks and common stockholder equity.
[4]Revenues divided by average capital employed.

SIX-YEAR HIGHLIGHTS

CONSOLIDATED FINANCIAL POSITION

(dollars in thousands)

Years ended March 31	1983	1982	1981	1980[1]	1979	1978
Customer receivables	**$ 319,804**	$ 305,871	$ 289,435	$ 254,617	$ 229,409	$ 207,836
Turnover	**12.8**	12.5	12.0	11.9	11.7	11.4
Days of sales	**28.2**	28.8	30.1	30.2	30.8	31.5
Inventories-LIFO cost	**418,993**	388,393	387,401	376,895	346,997	306,582
Inventories-FIFO cost	**520,188**	469,093	440,817	405,808	356,806	315,973
Turnover	**6.5**	6.7	6.5	6.2	6.2	6.2
Days of sales	**55.7**	53.8	55.6	58.3	58.4	58.2
Current assets	**848,677**	779,014	748,631	705,349	619,111	566,597
Current liabilities	**541,404**	499,104	485,445	461,974	410,865	380,754
Working capital	**307,273**	279,910	263,186	243,375	208,246	185,843
Turnover[2]	**13.3**	13.7	13.1	12.5	12.9	12.8
Percent of capital employed	**36.3%**	33.1%	34.5%	33.6%	30.2%	26.8%
Property, plant and equipment-net	**250,218**	238,704	193,098	165,987	146,822	147,246
Percent of capital employed	**29.6%**	28.2%	25.3%	22.9%	21.3%	21.2%
Capital expenditures	**63,007**	63,544	51,263	45,412	32,650	24,670
Depreciation	**30,488**	24,872	21,242	18,981	18,231	19,169
Total assets	**1,372,812**	1,328,595	1,215,433	1,149,230	1,077,521	991,927
Total debt[3]	**277,423**	320,585	252,870	277,750	290,557	328,977
Redeemable preferred stock	**191**	196	4,220	4,336	11,401	11,424
Nonredeemable preferred stock	**14,371**	16,670	22,009	27,482	44,425	64,626
Common stockholder equity[4]	**495,721**	464,673	453,988	392,572	322,245	265,525
Capital employed[5]	**845,546**	845,253	762,118	723,282	689,279	693,382
Ratio of debt to capital employed	**32.8%**	37.9%	33.2%	38.4%	42.2%	47.4%

Statistical Data

	1983	1982	1981	1980	1979	1978
Preferred stockholders	**5,500**	6,000	6,700	7,700	10,500	12,300
Common stockholders	**33,800**	37,000	40,400	42,600	44,500	46,000
Employees-continuing operations	**12,700**	13,000	13,100	13,600	13,700	13,600

[1]The last-in, first-out method of valuing inventories was extended to substantially all of the company's inventories in 1980.
[2]Revenues divided by working capital.
[3]Total debt includes all interest-bearing debt and capitalized lease obligations.
[4]In 1982, common stockholder equity was reduced $60,346,000 by the repurchase of 1,551,787 shares of common stock.
[5]Capital employed consists of total debt, deferred taxes on income, preferred stocks and common stockholder equity.

SIX-YEAR HIGHLIGHTS

OPERATING GROUPS

(dollars in thousands)

Years ended March 31	1983	1982	1981	1980[1]	1979	1978
Drug & Health Care						
Revenues	**$2,177,569**	$1,903,661	$1,677,313	$1,428,660	$1,264,466	$1,110,208
Percent increase	**14.4%**	13.5%	17.4%	13.0%	13.9%	
Operating profit	**55,937**	48,207	39,234	31,258	31,824	22,637
Percent increase	**16.0%**	22.9%	25.5%	(1.8)%	40.6%	
Percent of revenues	**2.6%**	2.5%	2.3%	2.2%	2.5%	2.0%
Average capital employed	**226,940**	211,518	195,727	176,409	163,511	150,421
Turnover[2]	**9.6**	9.0	8.6	8.1	7.7	7.4
Return[3]	**24.6%**	22.8%	20.0%	17.7%	19.5%	15.0%
Addition to LIFO reserve	**20,666**	19,856	14,274	9,052	(1,543)	287
Identifiable assets	**491,722**	440,833	388,631	344,798	312,532	281,236
Capital expenditures	**18,792**	18,192	13,018	8,223	3,464	3,136
Depreciation and amortization	**6,964**	5,709	4,294	4,379	4,926	4,941
Wine & Spirits						
Revenues	**$873,352**	$859,882	$816,885	$765,530	$699,150	$632,281
Percent increase	**1.6%**	5.3%	6.7%	9.5%	10.6%	
Operating profit	**31,259**	32,132	26,297	23,099	27,803	19,975
Percent increase	**(2.7)%**	22.2%	13.8%	(16.9)%	39.2%	
Percent of revenues	**3.6%**	3.7%	3.2%	3.0%	4.0%	3.2%
Average capital employed	**95,280**	96,731	96,748	90,708	84,817	76,590
Turnover[2]	**9.2**	8.9	8.4	8.4	8.2	8.3
Return[3]	**32.8%**	33.2%	27.2%	25.5%	32.8%	26.1%
Addition to LIFO reserve	**1,549**	4,510	4,729	3,130	733	
Identifiable assets	**211,244**	202,839	197,174	197,648	179,705	166,853
Capital expenditures	**6,590**	3,953	4,050	3,623	2,236	1,468
Depreciation and amortization	**3,098**	2,587	2,228	1,696	1,389	1,374
Chemical						
Revenues	**$603,276**	$628,207	$576,775	$505,107	$435,067	$375,688
Percent increase	**(4.0)%**	8.9%	14.2%	16.1%	15.8%	
Operating profit	**14,907**	21,416	21,039	17,110	16,561	14,969
Percent increase	**(30.4)%**	1.8%	23.0%	3.3%	10.6%	
Percent of revenues	**2.5%**	3.4%	3.6%	3.4%	3.8%	4.0%
Average capital employed	**74,198**	62,813	62,598	64,758	60,754	40,746
Turnover[2]	**8.1**	10.0	9.2	7.8	7.2	9.2
Return[3]	**20.1%**	34.1%	33.6%	26.4%	27.3%	36.7%
Addition to LIFO reserve	**(582)**	2,210	3,832	3,866	611	1,242
Identifiable assets	**156,156**	150,798	126,338	127,508	115,196	103,782
Capital expenditures	**7,152**	12,305	5,415	8,815	7,377	6,847
Depreciation and amortization	**5,652**	4,768	3,831	3,256	2,711	1,777

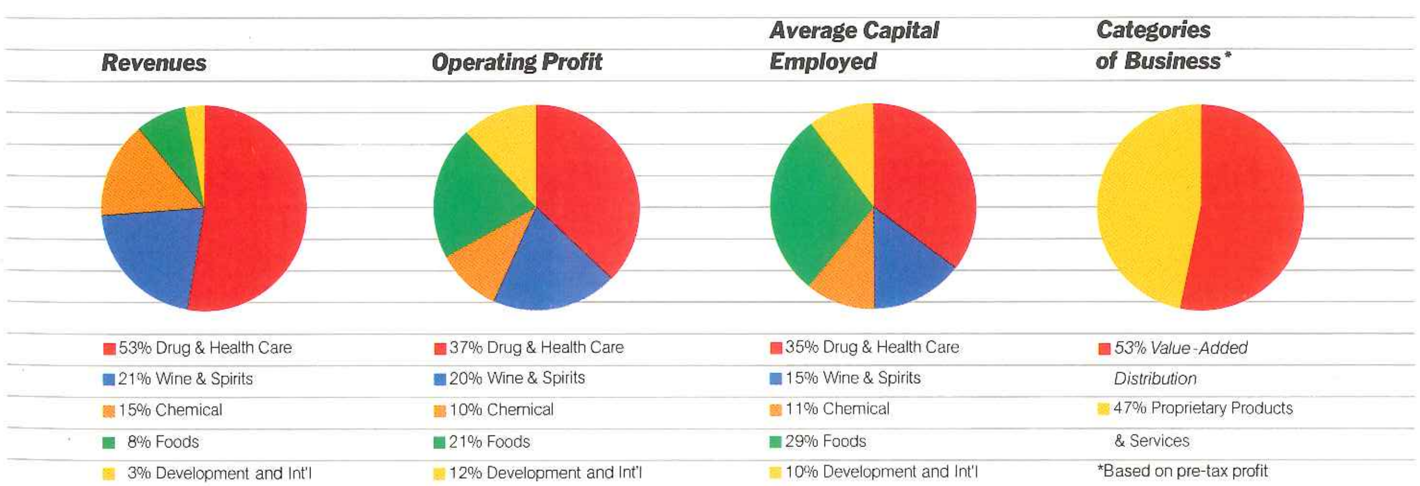
SIX-YEAR HIGHLIGHTS

OPERATING GROUPS

(dollars in thousands)

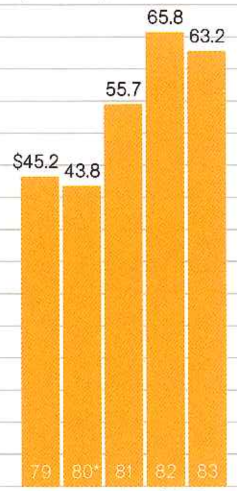
Years ended March 31	1983	1982	1981	1980[1]	1979	1978
Foods						
Revenues	**$319,609**	$333,095	$301,200	$260,348	$235,737	$210,365
Percent increase	**(4.0)%**	10.6%	15.7%	10.4%	12.1%	
Operating profit	**32,158**	35,635	32,933	22,817	23,598	26,292
Percent increase	**(9.8)%**	8.2%	44.3%	(3.3)%	(10.2)%	
Percent of revenues	**10.1%**	10.7%	10.9%	8.8%	10.0%	12.5%
Average capital employed	**192,533**	182,593	174,454	169,320	163,260	162,864
Turnover[2]	**1.7**	1.8	1.7	1.5	1.4	1.3
Return[3]	**16.7%**	19.5%	18.9%	13.5%	14.5%	16.1%
Addition to LIFO reserve	**(1,138)**	708	1,660	3,056	617	(298)
Identifiable assets	**220,042**	210,541	205,495	193,545	179,170	185,821
Capital expenditures	**17,744**	23,848	16,839	17,033	13,519	11,277
Depreciation and amortization	**15,379**	13,106	11,799	10,484	10,022	12,085
Development and International						
Revenues	**$107,675**	$99,113	$87,901	$80,543	$46,719	$47,507
Percent increase	**8.6%**	12.8%	9.1%	72.4%	(1.7)%	
Operating profit	**18,543**	19,591	19,108	14,013	10,288	9,867
Percent increase	**(5.3)%**	2.5%	36.4%	36.2%	4.3%	
Percent of revenues	**17.2%**	19.8%	21.7%	17.4%	22.0%	20.8%
Average capital employed	**66,217**	63,380	61,335	61,963	44,168	42,181
Turnover[2]	**1.6**	1.6	1.4	1.3	1.1	1.1
Return[3]	**28.0%**	30.9%	31.2%	22.6%	23.3%	23.4%
Identifiable assets	**111,576**	97,952	89,026	82,981	72,788	48,133
Capital expenditures	**4,583**	357	411	705	182	344
Depreciation and amortization	**1,773**	1,636	1,636	1,560	362	344

[1]The last-in, first-out method of valuing inventories was extended to substantially all of the company's inventories in 1980.
[2]Revenues divided by average capital employed.
[3]Based on operating profit.



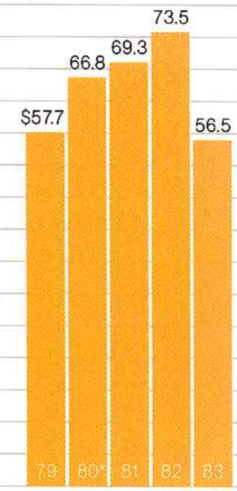
FIVE-YEAR HIGHLIGHTS

Income from Continuing Operations
(in millions)



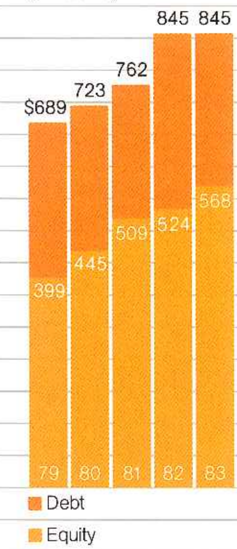
*After extension of LIFO

Net Income
(in millions)

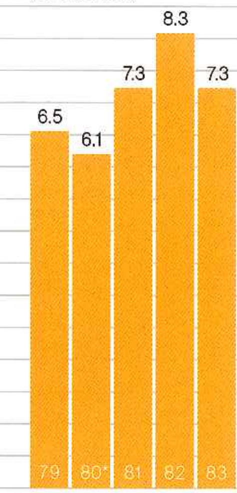


*After extension of LIFO

Capital Employed At Year End
(in millions)

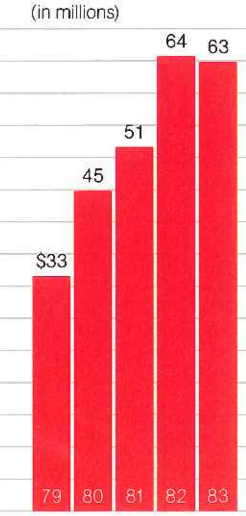


Return on Average Capital Employed
(as a percent)

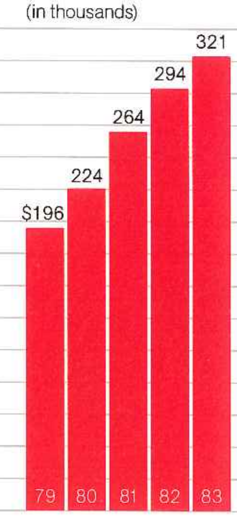


*After extension of LIFO

Capital Expenditures
(in millions)



Revenues Per Employee
(in thousands)



Income from Continuing Operations Per Employee
(in thousands)

*After extension of LIFO

Capital Employed Per Employee
(in thousands)

FINANCIAL REVIEW

OPERATING RESULTS

Revenues from continuing operations in fiscal year 1983 rose $258 million, or 6.7%, to $4.1 billion. Inflation accounted for about 5.3% of the increase, while real volume growth added about 1.4%.

Operating profit totaled $153 million, down 3% from 1982. Income before taxes was $115 million, off 4%.

Operating profit of the Drug & Health Care Group increased 16%. The group recorded a revenue increase of $274 million, or 14.4%, bringing its revenues to more than $2 billion for the first time. Real sales volume was up about 6%. Sales volume increases coupled with productivity gains as a result of computerization and expanded use of improved materials-handling facilities generated improved profits.

The Wine & Spirits Group recorded an operating profit decline of 3% on a 2% increase in revenues. In real terms, sales of the group were the same as last year while U.S. consumption of distilled spirits declined and wine consumption grew only moderately. The group's wholesale operation's results reflected the softness of the industry, while the marketing and import businesses showed gains in both sales and profitability.

The Chemical Group recorded an operating profit decline of 30%. The decline was a result of a 4% drop in revenues, lower gross margins, and an increase in operating expenses as a percentage of sales. The group's profit decline was associated with lower industry-wide demand for the chemicals distributed by the company, particularly to the oil and gas and housing industries. Operating losses in the group's McKesson Envirosystems unit were offset by an insurance recovery from an explosion that damaged a recycling plant in Newark, New Jersey.

Foods Group operating profit declined 10% from 1982 levels. This was largely accounted for by promotional price reductions in the pasta business. Revenues, which were down 4%, largely reflected the disposition of the Magic Shell and Milkman products in late 1982.

Operating profit of Development and International was down 5% although both Armor All and PCS recorded improved profits. The high growth in profits of PCS was due to a 21% increase in claims processed. International profits were depressed by the company's Argentine dairy subsidiary whose results were adversely affected by Argentina's 200% annual inflation rate coupled with price controls.

The following table illustrates the inflationary and real growth of total company revenues over the last three years:

	1983	1982	1981
Inflationary growth	**5.3%**	7.9%	8.0%
Real growth	**1.4**	2.6	5.8
Total revenue growth	**6.7%**	10.5%	13.8%

Because the company has been on the LIFO method of inventory valuation during this period, gross profits have fully reflected the impact of inflation as current costs of products sold are included in cost of sales. A more complete discussion of the impact of inflation on the company's operations is shown on pages 43 through 45.

DISCONTINUED OPERATIONS

During 1983 the company disposed of certain Foods Group operations, primarily Foremost Dairies. The effect on the financial statements of these dispositions is shown in financial Note 6 on page 36.

FINANCIAL CONDITION

Working Capital

Foremost-McKesson is a working capital intensive company. In 1983, working capital increased by $27 million, a somewhat larger rise than the company has experienced in recent years. This increase was largely the result of a higher inventory ratio and is the first increase in 5 years. The higher ratio reflected the effect of softer than expected sales in the general merchandise and food ingredients product lines.

1983 was the sixth consecutive year that the customer receivables ratio improved. As in previous years, the Drug & Health Care Group's expansion of its computerized order-entry programs, structured with shorter payment terms, has led to the company-wide improvement.

Capital Expenditures & Acquisitions

Capital expenditures in 1983 remained at the same level as in 1982–approximately $63 million. The Drug & Health Care Group's capital expenditures, reflecting its program to modernize and consolidate distribution centers, represented 30% of the company's capital spending in 1983. The Water Division's Aqua-Vend and bottled-water expansion programs also required significant capital expenditures. The company does not have significant contractual commitments for future capital expenditures.

In 1983, four acquisitions were completed at a cost of approximately $21 million in cash and stock as compared with six acquisitions costing $25 million in 1982. Acquisition activity in 1983 was primarily related to expansion of Wine & Spirits operations in Arizona and Maryland.

Liquidity

The company's ratio of debt to total capital employed was 32.8% at March 31, 1983 compared to 37.9% in 1982 and 33.2% in 1981. The improvement in the ratio in 1983 resulted from use of the $62 million cash proceeds from the sale of the Dairy Division to reduce debt. It is company policy to maintain a debt to total capital ratio in the 35-40% range. Consequently, the company has sufficient financial capacity to fund expansion of its business activities.

The company relies primarily upon its $150 million revolving credit agreement with a group of major banks to fund most of its variable rate debt requirements and to provide back-up facilities for commercial paper issued in lieu of bank debt. Senior funded debt of the company for which a bond rating has been issued is rated A3 by Moody's and A– by Standard & Poors Corporation. These ratings were raised in 1982.

QUARTERLY HIGHLIGHTS

Years ended March 31 (in thousands except per share amounts)

1983	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Revenues	$973,871	$993,304	$1,082,904	$1,031,402	$4,081,481
Gross profit	164,347	170,338	178,208	179,486	692,379
Net income					
Continuing operations	$12,408	$15,393	$18,445	$16,962	$63,208
Discontinued operations	411	(4,838)	(550)	(1,738)	(6,715)
Total	$12,819	$10,555	$17,895	$15,224	$56,493
Earnings per common share					
Fully diluted					
Continuing operations	$.70	$.85	$ .99	$.90	$3.44
Discontinued operations	.02	(.25)	(.03)	(.08)	(.34)
Total	$.72	$.60	$ .96	$.82	$3.10
Primary					
Continuing operations	$.75	$.93	$1.09	$.99	$3.76
Discontinued operations	.03	(.30)	(.03)	(.10)	(.40)
Total	$.78	$.63	$1.06	$.89	$3.36
Cash dividends per share					
Common	$.60	$.60	$ .60	$.60	$2.40
Series A preferred	.45	.45	.45	.45	1.80
Series B preferred	.51¼	.51¼	.51¼	.51¼	2.05
Market prices per common share	$29¼-33¼	$29-39⅜	$38⅛-45¼	$37¾-44	$29-45¼

1982	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Revenues	$908,483	$939,761	$1,017,256	$958,458	$3,823,958
Gross profit	153,260	162,167	173,695	166,427	655,549
Net income					
Continuing operations	$13,403	$16,512	$20,685	$15,224	$65,824
Discontinued operations	2,606	1,987	1,471	1,649	7,713
Total	$16,009	$18,499	$22,156	$16,873	$73,537
Earnings per common share					
Fully diluted					
Continuing operations	$ .77	$ .95	$1.15	$ .85	$3.72
Discontinued operations	.15	.11	.07	.09	.42
Total	$ .92	$1.06	$1.22	$ .94	$4.14
Primary					
Continuing operations	$ .84	$1.06	$1.28	$ .92	$4.10
Discontinued operations	.17	.12	.10	.10	.49
Total	$1.01	$1.18	$1.38	$1.02	$4.59
Cash dividends per share					
Common	$ .56	$ .56	$ .56	$ .56	$2.24
Series A preferred	.45	.45	.45	.45	1.80
Series B preferred	.51¼	.51¼	.51¼	.51¼	2.05
Market prices per common share	$36-40⅜	$32⅛-39	$33⅛-39⅝	$30½-37⅝	$30½-40⅜

STATEMENTS OF CONSOLIDATED INCOME

(in thousands except per share amounts)

Years ended March 31	**1983**	1982	1981
Revenues			
Sales	**$4,053,713**	$3,796,726	$3,441,181
Other	**27,768**	27,232	18,893
Total	**4,081,481**	3,823,958	3,460,074
Costs and Expenses			
Cost of sales	**3,361,334**	3,141,177	2,856,418
Selling	**176,970**	168,069	147,816
Distribution	**211,579**	203,144	182,619
Administrative	**185,220**	160,802	149,603
Interest	**31,565**	31,285	25,364
Total	**3,966,668**	3,704,477	3,361,820
Income Before Taxes on Income	**114,813**	119,481	98,254
Taxes on income (Note 13)	**51,605**	53,657	42,572
Income After Taxes			
Continuing operations	**63,208**	65,824	55,682
Discontinued operations (Note 6)	**(6,715)**	7,713	13,573
Net Income	**$ 56,493**	$ 73,537	$ 69,255
Per Common Share (Note 1)			
Fully diluted earnings			
Continuing operations	**$3.44**	$3.72	$3.11
Discontinued operations	**(.34)**	.42	.74
Total	**$3.10**	$4.14	$3.85
Primary earnings			
Continuing operations	**$3.76**	$4.10	$3.46
Discontinued operations	**(.40)**	.49	.87
Total	**$3.36**	$4.59	$4.33
Shares on Which Earnings Per Common Share Were Based (Note 1)			
Fully diluted	**19,596**	18,644	18,289
Primary	**16,591**	15,814	15,646

See Financial Notes.

CONSOLIDATED BALANCE SHEETS

ASSETS			(in thousands)
March 31	1983	1982	1981
Current Assets			
Cash	$ **46,748**	$ 43,108	$ 34,615
Receivables (Note 2)	**369,259**	335,447	314,540
Inventories (Notes 1 and 3)	**418,993**	388,393	387,401
Prepaid expenses (Note 13)	**13,677**	12,066	12,075
Total	**848,677**	779,014	748,631
Property, Plant and Equipment (Notes 1 and 10)			
Land	**16,927**	18,551	12,180
Buildings	**111,892**	116,308	99,895
Machinery and equipment	**271,930**	245,523	200,938
Total	**400,749**	380,382	313,013
Accumulated depreciation	**150,531**	141,678	119,915
Net	**250,218**	238,704	193,098
Investments			
Foreign companies (Notes 1 and 4)	**34,634**	36,219	36,984
Other (Notes 1 and 5)	**59,853**	29,024	8,085
Total	**94,487**	65,243	45,069
Other Assets			
Goodwill and other intangibles	**93,000**	91,312	91,090
Net assets of discontinued operations (Note 6)	**41,730**	112,574	108,131
Notes receivable	**30,784**	30,963	24,300
Other	**13,916**	10,785	5,114
Total	**179,430**	245,634	228,635
Total	**$1,372,812**	$1,328,595	$1,215,433

See Financial Notes.

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND EQUITY			(in thousands)
March 31	1983	1982	1981
Current Liabilities			
Accounts and drafts payable	$ **429,633**	$ 395,068	$ 355,700
Current portion of long-term debt (Notes 8 and 10)	**14,138**	15,762	32,130
Salaries and wages	**35,036**	35,307	33,631
Taxes	**15,398**	15,853	26,572
Interest and dividends	**16,930**	15,800	14,485
Other	**30,269**	21,314	22,927
Total	**541,404**	499,104	485,445
Long-term Debt			
Nonconvertible debt (Note 8)	**156,056**	189,062	164,728
Convertible debt (Note 9)	**87,960**	92,684	29,068
Capital lease obligations (Note 10)	**19,269**	23,077	26,944
Total	**263,285**	304,823	220,740
Deferred Taxes on Income (Note 13)	**57,840**	43,129	29,031
Redeemable Preferred Stock–Series B (Note 11)	**191**	196	4,220
Nonredeemable Preferred Stock–Series A (Note 11)	**14,371**	16,670	22,009
Common Stockholder Equity (Note 12)			
Common stock	**37,707**	36,165	33,054
Other capital	**117,029**	96,922	67,420
Retained earnings	**422,172**	405,971	364,776
Accumulated translation adjustment (Note 1)	**(5,805)**	(3,024)	
Treasury shares, at cost	**(75,382)**	(71,361)	(11,262)
Net	**495,721**	464,673	453,988
Total	**$1,372,812**	$1,328,595	$1,215,433

STATEMENTS OF CHANGES IN CONSOLIDATED PREFERRED STOCKS AND COMMON STOCKHOLDER EQUITY

(in thousands except share amounts)

Years ended March 31, 1983, 1982 and 1981	Preferred Stocks				Common Stockholder Equity						
	Redeemable Series B		Nonredeemable Series A		Common Stock		Treasury		Other Capital	Retained Earnings	Accumulated Translation Adjustment
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balances, March 31, 1980	123,881	$4,336	785,201	$27,482	15,566,701	$31,133	(523,146)	$(11,262)	$ 44,780	$327,921	
Issuance of shares under employee plans (Note 12)					265,365	532			5,298		
Conversion of debentures and preferred stocks	(3,303)	(116)	(156,362)	(5,473)	694,643	1,389			17,342		
Net income										69,255	
Cash dividends											
Series A preferred, $1.80 per share										(1,225)	
Series B preferred, $2.05 per share										(249)	
Common, $2.00 per share										(30,926)	
Balances, March 31, 1981	120,578	4,220	628,839	22,009	16,526,709	33,054	(523,146)	(11,262)	67,420	364,776	
Purchase of shares							(1,551,787)	(60,346)			
Issuance of shares under employee plans (Note 12)	148	5			297,877	596	1,103	29	7,273		
Inland Chemical Corp. pooling-of-interests					293,360	587			(1,073)	3,469	
Conversion of debentures and preferred stocks	(115,137)	(4,029)	(152,544)	(5,339)	965,244	1,930			23,816		
Other					(859)	(2)	11,907	218	(514)		
Accumulated translation adjustment											
As of April 1, 1981											$ (147)
Translation adjustment for 1982											(2,877)
Net income										73,537	
Cash dividends											
Series A preferred, $1.80 per share										(907)	
Series B preferred, $2.05 per share										(45)	
Common, $2.24 per share										(34,859)	
Balances, March 31, 1982	5,589	196	476,295	16,670	18,082,331	36,165	(2,061,923)	(71,361)	96,922	405,971	(3,024)
Purchase of shares							(101,043)	(4,021)			
Issuance of shares under employee plans (Note 12)					383,521	767			9,311		
Conversion of debentures and preferred stocks	(139)	(5)	(65,691)	(2,299)	260,926	522			6,506		
Acquisition of H. W. Wright & Co. Ltd.					126,551	253			2,759		
Other									1,531		
Translation adjustment											(2,781)
Net income										56,493	
Cash dividends											
Series A preferred, $1.80 per share										(793)	
Series B preferred, $2.05 per share										(12)	
Common, $2.40 per share										(39,487)	
Balances, March 31, 1983	5,450	$ 191	410,604	$14,371	18,853,329	$37,707	(2,162,966)	$(75,382)	$117,029	$422,172	$(5,805)

See Financial Notes.

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Years ended March 31	1983	1982	(in thousands) 1981
Funds Provided			
After-tax income from continuing operations	$ 63,208	$ 65,824	$ 55,682
Depreciation	30,488	24,872	21,242
Amortization of goodwill and other intangibles	4,537	4,123	3,706
Deferred taxes on income	14,711	14,098	7,889
Equity in undistributed earnings of nonconsolidated companies	(2,799)	(5,960)	(106)
Total from continuing operations	110,145	102,957	88,413
Proceeds from sales of discontinued operations	74,056		
Financing			
Capital shares	21,649	36,329	24,561
Long-term debt	8,111	122,678	28,233
Property contributed to joint venture (Note 5)	22,144		
Dispositions of property, plant and equipment	6,842	3,564	2,910
Total	$242,947	$265,528	$144,117
Funds Applied			
Additions			
Property, plant and equipment	$ 63,007	$ 63,544	$ 51,263
Tax benefit leases	11,100	25,826	
Goodwill and other intangibles	6,225	4,345	651
Other investments and assets-net (Note 5)	21,078	3,746	(6,062)
Property, plant and equipment of acquired companies	7,981	10,498	
Discontinued operations	9,927	(3,270)	(8,752)
Long-term debt			
Repayments	44,925	22,211	35,950
Conversions	4,724	16,384	13,267
Cash dividends	40,292	35,811	32,400
Capital shares			
Purchases	4,021	60,346	
Conversions	2,304	9,363	5,589
Increase in working capital	27,363	16,724	19,811
Total	$242,947	$265,528	$144,117
Working Capital Increase by Component			
Cash	$ 3,640	$ 8,493	$ 680
Receivables	33,812	20,907	32,070
Inventories	30,600	992	10,506
Accounts and drafts payable	(34,565)	(39,368)	(24,411)
Current portion of long-term debt	1,624	16,368	3,896
Taxes	455	10,719	47
Other current assets and liabilities	(8,203)	(1,387)	(2,977)
Total	$ 27,363	$ 16,724	$ 19,811

See Financial Notes.

FINANCIAL NOTES

1. Significant Accounting Policies

Consolidated Financial Statements include the financial statements of all majority-owned United States and Canadian companies, except those of subsidiary companies classified as net assets of discontinued operations. All significant intercorporate amounts have been eliminated. Companies combined in poolings-of-interests are included for prior years when the effect of their inclusion is material.

Inventories, primarily merchandise and supplies, are stated at the lower of cost or market. The cost of substantially all inventories is determined on the last-in, first-out (LIFO) method.

Property, Plant and Equipment are stated at cost and depreciated on the straight-line method at rates designed to distribute the cost of properties over estimated service lives.

Investments in nonconsolidated companies and joint ventures, other than the Foremost-Baldwin joint venture described in Note 5, over which the company exercises significant influence in operating and financial matters are included in the financial statements on the equity method. Equity in pretax earnings of foreign companies is recognized on a calendar year basis and is included in other revenues in the statements of consolidated income; related foreign income taxes are included in taxes on income.

Effective April 1, 1981, financial statements of the company's foreign affiliates are translated into U.S. dollars in accordance with Financial Accounting Standard No. 52. In general, financial statements in foreign currencies are translated at year end rates for balance sheet items and at average annual rates for income statement items; cumulative translation gains or losses are reported in common stockholder equity.

Pension Costs are determined under the unit credit actuarial method. Adjustments resulting from plan changes are amortized over thirty years and adjustments resulting from experience gains and losses are amortized over fifteen years. Prior service costs are amortized over forty years. Accruals recommended by independent actuaries are funded.

Tax Benefit Leases. The investment in tax benefit leases of $24,232,000 at March 31, 1983 is included in Other Investments and represents the unamortized cost of tax credits and tax depreciation deductions purchased from others as allowed by the Economic Recovery Tax Act of 1981. The purchase price has been allocated between tax credits and depreciation deductions. Income resulting from the purchase of tax credits is recognized at a constant rate of return on the unrecovered allocated cost. The cost allocated to tax depreciation deductions will be amortized to expense in the periods when tax deferrals exceed the allocated cost.

Earnings per Common Share. Primary earnings per common share are based on net income, after deducting preferred stock dividends, and the weighted average number of outstanding common shares and common share equivalents (dilutive options). All convertible securities are assumed to be converted in the computation of fully diluted earnings per common share when the conversion has a dilutive effect.

2. Receivables

(in thousands)	1983	1982	1981
Customer accounts	$319,804	$305,871	$289,435
Notes and other	60,661	39,104	35,311
Total	380,465	344,975	324,746
Allowances	11,206	9,528	10,206
Net	$369,259	$335,447	$314,540

The allowances are for uncollectible amounts, discounts, returns and other adjustments.

3. Inventories

(in thousands)	1983	1982	1981
First-in, first-out cost	$520,188	$469,093	$440,817
Adjustment to LIFO	101,195	80,700	53,416
Inventories, principally at last-in, first-out cost	$418,993	$388,393	$387,401

4. Foreign Investments

(in thousands)	1983	1982	1981
Subsidiaries			
Latin America	**$16,578**	$17,018	$14,505
Europe	**5,415**	5,272	5,554
Far East	**5,389**	4,939	4,717
Other areas	**2,971**	4,409	3,273
Total	**30,353**	31,638	28,049
Nonsubsidiaries	**4,281**	4,581	8,935
Total	**$34,634**	$36,219	$36,984

Combined summary financial information for foreign subsidiaries follows:

(in thousands)	1983	1982	1981
Assets	**$ 76,131**	$ 85,916	$ 98,309
Liabilities	**36,350**	44,759	60,713
Minority interests	**9,428**	9,519	9,547
Revenues	**128,341**	157,594	171,645
Equity in pretax earnings	**2,513**	5,133	5,071
Unrealized translation gain	**2,333**	3,594	128
Equity in net income	**2,542**	6,134	2,525

Amounts for 1982 and 1981 have been restated to include an Argentine company which became a majority-owned subsidiary in 1983. Substantially all unrealized translation gains included in income resulted from translation of the financial statements of the Argentine company. Such gains were largely offset by operating losses. Both gains and losses resulted from devaluation of the Argentine peso.

5. Other Investments

Other investments include approximately $22,000,000 representing the company's depreciated cost of real estate contributed to a joint venture with Baldwin-United Corporation. The net book value of the real estate was transferred from property, plant and equipment and no gain was recognized on the transaction. Baldwin contributed $42,000,000 of 14% cumulative preferred stock of its Balunit, Inc. subsidiary, an amount equal to the appraised value of the real estate. The company leased the real estate from the joint venture for a minimum term of 20 years. The joint venture agreement provides that the rentals are allocable to Baldwin, and that future appreciation of the property may be shared by the partners in accordance with a formula. The agreement also provides that the preferred dividends are allocable to the company. Such dividends are recorded in the quarter received.

The company believes that its continued use of the leased properties will not be impaired. However, the value of the joint venture investment may be affected if Baldwin is unable to resolve its reported financial problems satisfactorily.

6. Discontinued Operations

In fiscal 1983, the company disposed of certain Foods Group businesses, primarily Foremost Dairies, and during fiscal 1982, the company commenced divestiture of its homebuilding operations. Financial statements for prior years have been restated for discontinued operations.

In connection with the divestiture of the homebuilding operations, Ditz-Crane of Santa Clara, Inc. which represents approximately one-half of the homebuilding assets, is currently for sale. Additionally, joint ventures were formed with former executives of Crocker Homes, Inc. and Ditz-Crane of Arizona, Inc. These ventures provide for an orderly disposition of the existing assets over a four-year period.

The net assets of discontinued operations at March 31 were as follows:

(in thousands)	1983	1982	1981
Assets			
Homebuilding operations			
Residential land development properties, including construction in progress	**$71,368**	$ 83,775	$ 85,347
Investments in joint ventures and partnerships–at equity	**11,619**	6,591	2,787
Other	**13,574**	22,590	8,021
Foods Group businesses			
Current assets		72,838	75,512
Other assets, principally net property, plant and equipment		61,392	60,654
Total	**96,561**	247,186	232,321
Liabilities			
Homebuilding operations			
Unsecured loans	**40,771**	44,424	27,900
Secured loans	**4,419**	16,111	18,231
Accounts payable and accrued liabilities	**3,243**	12,465	17,052
Deferred taxes on income	**6,398**	5,408	1,353
Foods Group businesses			
Current liabilities		56,204	59,654
Total	**54,831**	134,612	124,190
Net assets	**$41,730**	$112,574	$108,131

Residential land development properties are stated at the lower of cost or net realizable value. Cost includes property taxes and interest on debt identifiable with the properties and indirect construction costs.

Revenues from discontinued operations were:

(in thousands)	1983	1982	1981
Homebuilding operations	**$ 44,768**	$ 88,867	$103,226
Foods Group businesses	**443,781**	696,792	693,271
Total	**$488,549**	$785,659	$796,497

Income from discontinued operations was:

(in thousands)	1983	1982	1981
Homebuilding operations			
Income before taxes	**$ (1,498)**	$8,953	$16,480
Taxes on income	**(851)**	4,050	7,793
Net	**(647)**	4,903	8,687
Foods Group businesses			
Income before taxes	**(405)**	3,788	7,643
Taxes on income	**(249)**	978	2,757
Net	**(156)**	2,810	4,886
Disposition of Foods Group businesses			
Loss on dispositions	**(10,018)**		
Taxes on income	**(4,106)**		
Net	**(5,912)**		
Total net income (loss) from discontinued operations	**$ (6,715)**	$7,713	$13,573

7. Short-term Borrowings

At March 31, 1983, the company had agreements with certain banks whereby it could borrow up to $82,000,000 at prime or money market-based interest rates under open lines of credit. In most instances, the company was expected to and has maintained, as compensating balances, an average of 5% of the lines. There were no borrowings under these lines at March 31, 1983.

8. Nonconvertible Debt

(in thousands)	1983	1982	1981
Notes payable to insurance companies, 6.05% to 8.75%, payable through December 1989	$ 52,100	$ 63,200	$ 74,300
Notes payable to bank, 11 7/8% to 11 15/16%, payable through June 1985	25,000	25,000	25,000
Industrial Development Revenue Bonds, 5 1/4% to 12 3/4%, payable through December 2012	21,185	16,030	11,395
Borrowings supported by bank revolving credit agreement, 9 1/2% to 16 1/2%	48,783	75,192	42,350
Other, 7 1/8% to 18 5/8%, payable through 2013	8,988	9,640	11,683
Total	$156,056	$189,062	$164,728

During 1983, the company had a revolving credit agreement with eight banks whereby the banks guarantee borrowing availability up to $150,000,000 at the prime interest rate or several money market-based rates. The company currently pays a commitment fee of .375% on any unused portion of the line. Compensating balances are not required. The agreement renews automatically each year. Any bank may terminate its participation with at least 22 1/2 months notice, in which event any borrowings must be repaid in four equal annual installments beginning July 15 of the following year. At March 31, 1983, borrowings of $35,000,000 were outstanding under the agreement. An additional $23,000,000 was an outstanding obligation of the Homebuilding operations. In addition, $13,783,000 in bank borrowings and commercial paper supported by the revolving credit agreement have been classified as nonconvertible debt because the company intends to continue such borrowings under this or other long-term loan arrangements.

Aggregate annual payments on nonconvertible debt and capitalized lease obligations for the years ended March 31 are:

(in thousands)	Non-convertible Debt	Capital Leases	Total
1984	$ 11,907	$ 2,231	$ 14,138
1985	24,385	1,457	25,842
1986	24,399	1,064	25,463
1987	24,072	969	25,041
1988	23,992	1,346	25,338
Later years	59,208	14,433	73,641
Total	$167,963	$21,500	$189,463

Debt agreements contain limitations on additional indebtedness, lease obligations, purchase of outstanding capital stock and payments of dividends and require maintenance of minimum levels of working capital.

9. Convertible Debt

(in thousands)	1983	1982	1981
9 3/4% subordinated debentures	$80,000	$80,000	
6% subordinated debentures	7,960	12,684	$29,068
Total	$87,960	$92,684	$29,068

The 9 3/4% debentures are convertible into common stock at $43.75 per share and are currently redeemable at 108.78% of principal. Beginning in fiscal 1992, an annual sinking fund payment of $4,000,000 is required to retire 70% of debentures prior to maturity in March 2006.

The 6% debentures (shown net of $4,366,000 in the treasury or held by consolidated subsidiaries) are convertible into common stock at $30.66 per share and are currently redeemable at 102.1% of principal. An annual sinking fund payment of $2,957,000 is required to retire 84% of the debentures prior to maturity in June 1994. This sinking fund requirement is fulfilled through June 1992 by debentures in treasury and conversions.

10. Lease Obligations

The company leases facilities and equipment under both capital and operating leases. Assets held under capital leases are included in property, plant and equipment as follows:

(in thousands)	1983	1982	1981
Land	$ 1,511	$ 1,720	$ 1,768
Buildings	27,932	28,820	28,823
Machinery and equipment	8,679	13,555	19,011
Total	38,122	44,095	49,602
Accumulated depreciation	16,274	19,398	21,738
Net	$21,848	$24,697	$27,864

As of March 31, 1983, future minimum lease payments and sublease rentals in years ending March 31, are:

(in thousands)	Non-cancellable Operating Leases	Non-cancellable Sublease Rentals	Capital Leases
1984	$ 25,790	$1,155	$ 3,969
1985	23,290	998	2,957
1986	19,616	824	2,419
1987	15,602	594	2,240
1988	9,010	532	2,564
Later years	57,853	1,716	26,670
Total minimum lease payments	$151,161	$5,819	40,819
Less amounts representing interest			19,319
Present value of minimum lease payments			21,500
Less current portion			2,231
Net			$19,269

Rental expense including executory costs when included in rent related to operating leases is as follows:

(in thousands)	1983	1982	1981
Minimum rentals	$37,893	$31,932	$28,640
Contingent rentals	412	419	605
Total	38,305	32,351	29,245
Less income from subleases	1,240	880	895
Net	$37,065	$31,471	$28,350

Most real property leases contain renewal options and provisions requiring the company to pay property taxes and operating expenses over base period amounts. Contingent rentals include payments based on usage of leased equipment.

11. Preferred Stocks

At March 31, 1983, there were 6,000,000 shares of preferred stock authorized.

Each share of cumulative Series A preferred stock is convertible, at the option of the holder, into 1 5/8 shares of common stock and is callable at $37.

Each share of cumulative Series B preferred stock is convertible, at the option of the holder, into 1.5909 shares of common stock and is callable at $35. Until January 1986, the holder may require the company to repurchase the shares at $31.50.

Each share of preferred stock has voting rights equivalent to a share of common stock.

12. Common Stockholder Equity

At March 31, 1983, there were 60,000,000 shares of $2 par value common stock authorized, of which 2,764,095 common shares were reserved for conversion of preferred stock and convertible debentures.

Options to purchase common stock at various times through 1993 have been granted at quoted market prices to key employees.

Option information follows:

	1983	1982	1981
Shares			
Options outstanding at beginning of year	651,366	752,728	825,855
Granted	848,674	121,450	92,350
Exercised at prices of $12 3/4 to $39 3/8 per share	(183,170)	(184,521)	(119,865)
Cancelled	(58,243)	(26,813)	(21,837)
Surrendered (stock appreciation rights)	(39,824)	(11,478)	(23,775)
Options outstanding at year-end	1,218,803	651,366	752,728
Available for additional grants at end of year	677,427	537,104	29,751
Reserved at end of year	1,896,230	1,188,470	782,479
At year-end			
Range of outstanding option prices	$18 1/2-39 3/8	$15 5/8-39 3/8	$14 1/8-33 1/4
Aggregate option price	$39,864,000	$15,147,000	$14,635,000
Aggregate market value	$52,409,000	$20,192,000	$27,475,000

The options granted during the years ended March 31, 1983, 1982, and 1981 included 52,401, 61,000 and 28,300 options with stock appreciation rights, whereby the option holders may exercise the option or, at the discretion of the Compensation Committee of the Board of Directors, may receive the appreciation in the stock's value in stock or cash. Certain of the options granted in 1983 are subject to the approval of stockholders of a 900,000 share increase in the number of common shares available for issuance under the 1978 Stock Option Plan.

Options outstanding at March 31, 1983 included 275,953 which were exercisable. During 1983, 173,551 options became exercisable.

A stock purchase plan grants key employees the right to purchase from the company an aggregate of 400,000 shares of common stock at quoted market prices, payable 10% in cash at date of purchase and a recourse note due in installments over a ten-year period. The notes taken in 1983 bear interest at 10%; those taken in prior years at 7%. Under this plan, 283,850 treasury common or previously unissued shares have been purchased, of which 55,750 were purchased in 1983, 5,200 in 1982 and 4,000 in 1981. Such shares were pledged for the payment of the related notes and interest.

In connection with the company's profit-sharing investment plan contribution, 147,000, 116,300 and 141,500 common shares were issued in 1983, 1982 and 1981.

At March 31, 1983 consolidated retained earnings of $68,063,000 were not restricted as to distributions to shareholders.

Consolidated retained earnings at March 31, 1983, 1982, and 1981 includes undistributed earnings of nonconsolidated companies as follows:

(in thousands)	1983	1982	1981
Foreign	**$28,275**	$26,286	$21,394
Homebuilding	**19,158**	23,805	20,815
Other	**(1,097)**	(1,806)	(2,468)
Total	**$46,336**	$48,285	$39,741

The earnings of foreign subsidiaries and affiliates are not necessarily available for distribution since substantial amounts have been reinvested in foreign properties and working capital and because certain distributions are subject to restrictions.

13. Taxes on Income

(in thousands)	1983	1982	1981
Current			
Federal	**$24,863**	$28,247	$25,223
State	**7,865**	6,382	5,056
Foreign	**3,113**	4,279	4,203
Total	**35,841**	38,908	34,482
Deferred			
Federal	**14,631**	13,845	6,745
State	**1,133**	884	1,345
Total	**15,764**	14,729	8,090
Total	**$51,605**	$53,637	$42,572

Current Federal taxes on income have been reduced $3,799,000 in 1983, $4,415,000 in 1982, and $3,305,000 in 1981 by investment tax credits.

Deferred taxes on income result from timing differences between income reported in the financial statements and taxable income. The tax effects of these differences are:

(in thousands)	1983	1982	1981
Tax benefit leases	**$10,141**	$ 7,434	
Depreciation computed at accelerated rates for tax purposes	**4,587**	5,952	$4,512
Tax depreciation deducted in excess of prior year estimates		2,158	4,159
Other–net	**1,036**	(815)	(581)
Total	**$15,764**	$14,729	$8,090

The net current portion of deferred taxes was $5,963,000 at March 31, 1983, $7,016,000 at March 31, 1982 and $7,646,000 at March 31, 1981 and is included in prepaid expenses.

The reconciliation between the company's effective tax rate on income from continuing operations and the statutory Federal income tax rate follows:

	1983	1982	1981
Statutory Federal income tax rate	**46.0%**	46.0%	46.0%
State and local income taxes	**4.2**	3.3	3.5
Investment tax credits	**(3.3)**	(3.7)	(3.4)
Other–net	**(2.0)**	(.7)	(2.8)
Effective tax rate	**44.9%**	44.9%	43.3%

Income before taxes on income includes foreign income of $4,654,000 in 1983, $9,363,000 in 1982, and $7,532,000 in 1981.

Provision has been made for income taxes on the undistributed earnings of foreign companies based on anticipated repatriations of earnings and dispositions of investments. If all of the undistributed earnings of foreign companies were to be repatriated, $5,100,000 of taxes in excess of amounts previously provided may become payable.

14. Retirement Plans

The company has retirement plans or makes contributions to multiemployer plans covering most full-time employees. Pension expense for company sponsored and multiemployer plans of continuing operations was $7,717,000 in 1983, $9,428,000 in 1982 and $9,566,000 in 1981.

The table below shows the cost of the company sponsored retirement plans for years ended March 31; other data is principally as of the previous December 31, the valuation date of the major plan.

(in thousands)	1983	1982	1981
Cost	**$ 4,759**	$ 6,640	$ 6,524
Actuarial present value of accumulated plan benefits			
Vested benefits	**$107,475**	$ 98,274	$ 89,979
Non-vested benefits	**5,477**	5,620	7,084
Total	**$112,952**	$103,894	$ 97,063
Net assets available for benefits	**$134,662**	$117,785	$111,501

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9½% throughout the three-year period.

With respect to the multiemployer retirement plans, it is not practicable to determine the information disclosed above. Under the Multiemployer Pension Plan Amendments Act of 1980, the company, under certain circumstances, including complete or partial withdrawal from the plans, may be required to fund its proportionate share of each plan's unfunded vested benefits. Such share is presently not determinable.

Retirement benefits for non-union employees include a supplementary contributory profit-sharing plan. The cost of the company contribution to the profit-sharing plan was $2,540,000 in 1983, $4,316,000 in 1982 and $3,761,000 in 1981.

15. Other Commitments and Contingent Liabilities

In the ordinary course of business, the company has incurred commitments, including employment contracts, is contingently liable as a guarantor or endorser of notes, leases and contracts, is subject to personal injury and product liability claims and has the usual contractor's obligations for completion of contracts and the usual seller's obligations incurred in connection with sales of realty assets.

The company is also subject to various claims and other pending and possible legal actions for damages and investigations relating to governmental laws and regulations (including contingent liability under the Multiemployer Pension Plan Amendments Act of 1980, environmental matters, and investigations concerning the existence of possible violations of Federal or state liquor laws) and to other matters arising out of the conduct of the company's business.

In March 1983, a class action in the Hawaii state court was filed against a subsidiary of the company, arising primarily out of a recall of milk products distributed on Oahu, ordered by the Hawaii Department of Health in March 1982, due to allegedly excessive levels of pesticide heptachlor found in samples of the products and which plaintiffs allege were contaminated with excessive levels of heptachlor from 1980 to 1982. Plaintiffs seek reimbursement for all monies paid for the purchase of milk over an unspecified time period; actual damages in an unspecified amount; punitive damages of one thousand dollars per plaintiff for what plaintiffs estimate to be more than 250,000 persons; and other monetary and nonmonetary relief.

There is considerable uncertainty inherent in any litigation or governmental proceeding and the evaluation of individual matters is necessarily dependent on the historical experience of the company and others in similar circumstances and the stage of the litigation or proceeding. The company, based upon the opinion of its General Counsel, believes that adequate provision has been made for probable losses. In cases where losses (or the imposition of other sanctions, such as liquor license suspensions or revocations) are possible but not probable, it is the company's belief that their ultimate resolution will not have a material adverse effect on the company's consolidated financial position or the results of its consolidated operations.

16. Segments of Business

(in thousands)	1983	1982	1981
Revenues			
Drug & Health Care	**$2,177,569**	$1,903,661	$1,677,313
Wine & Spirits	**873,352**	859,882	816,885
Chemical	**603,276**	628,207	576,775
Foods	**319,609**	333,095	301,200
Development and International	**107,675**	99,113	87,901
Total	**$4,081,481**	$3,823,958	$3,460,074
Operating Profit			
Drug & Health Care	**$ 55,937**	$ 48,207	$ 39,234
Wine & Spirits	**31,259**	32,132	26,297
Chemical	**14,907**	21,416	21,039
Foods	**32,158**	35,635	32,933
Development and International	**18,543**	19,591	19,108
Total	**152,804**	156,981	138,611
Interest	**(31,565)**	(31,285)	(25,364)
Corporate	**(6,426)**	(6,215)	(14,993)
Income before taxes on income	**$ 114,813**	$ 119,481	$ 98,254
Identifiable Assets–at year end			
Drug & Health Care	**$ 491,722**	$ 440,833	$ 388,631
Wine & Spirits	**211,244**	202,839	197,174
Chemical	**156,156**	150,798	126,338
Foods	**220,042**	210,541	205,495
Development and International	**111,576**	97,952	89,026
Total	**1,190,740**	1,102,963	1,006,664
Corporate	**182,072**	225,632	208,769
Total	**$1,372,812**	$1,328,595	$1,215,433
Depreciation and Amortization			
Drug & Health Care	**$ 6,964**	$ 5,709	$ 4,294
Wine & Spirits	**3,098**	2,587	2,228
Chemical	**5,652**	4,768	3,831
Foods	**15,379**	13,106	11,799
Development and International	**1,773**	1,636	1,636
Capital Expenditures			
Drug & Health Care	**$ 18,792**	$ 18,192	$ 13,018
Wine & Spirits	**6,590**	3,953	4,050
Chemical	**7,152**	12,305	5,415
Foods	**17,744**	23,848	16,839
Development and International	**4,583**	357	411

Equity in Pretax Earnings of Nonconsolidated Companies Included in Other Revenues

	1983	1982	1981
Wine & Spirits	**$ 625**	$1,108	$ 930
Development and International	**6,044**	9,272	6,246

The company's principal business activities are grouped into five industry segments.

The Drug & Health Care Group includes the largest nationwide distributor of ethical and proprietary drugs, toiletries and sundries serving 15,000 retail drug store and hospital pharmacy customers from its 56 distribution centers. It also markets a broad range of computer services to retailers.

The Wine & Spirits Group is the largest wholesale distributor of wine and spirits in the United States, representing most U.S. distillers, importers and wineries in one or more markets. Sales are made to liquor stores, restaurants, bars and other establishments from its 36 distribution centers in 14 states. In addition, certain brands of alcoholic beverages are imported and marketed throughout the country.

The Chemical Group is the largest independent full-line distributor of chemicals in the United States. It handles a broad line of industrial and specialty chemicals through a national network of 63 distribution facilities. Chemicals are generally purchased in carload and truckload lots and resold in smaller quantities to its 45,000 customers. Some products are purchased in bulk and repackaged. This group also specializes in reclaiming and recycling chemicals, principally solvents.

The Foods Group is a major supplier of processed water for consumer use in the Western and Sunbelt states. It is a processor and marketer of a number of proprietary grocery shelf items sold in the Eastern states under the Mueller's brand. It is also a processor and distributor of dehydrated onions and garlic and lactose and high-protein items derived from whey.

The Development Group acquires and manages small, growth-oriented businesses. It includes Armor All Products, Pharmaceutical Card System, and the California Culinary Academy. The International division includes the international food and drug operations of the company.

Revenues include net sales, equity in the pretax earnings of nonconsolidated foreign companies, interest, pretax gains on disposition of assets and miscellaneous revenues. Sales between segments are not significant. No material part of the company's business is dependent upon a single or a very few customers.

Operating profit is total revenue less cost of sales and operating expenses. Operating expenses do not include interest and corporate expenses or taxes on income.

Identifiable assets are those assets used in the operations of each segment. Corporate assets are principally cash and cash equivalents, prepaid taxes on income, receivables and investments.

Foreign operations are carried on principally by nonconsolidated foreign companies. Investments in and advances to nonconsolidated foreign companies are included in the identifiable assets of the segments. Equity in pretax earnings of these companies is included in the revenues of the respective segments. The company's foreign operations and export sales, other than those of foreign companies included in the financial statements on the equity method, are not significant.

17. Supplemental Information on Inflation and Changing Prices (unaudited)

Financial statements prepared under generally accepted accounting principles do not attempt to measure the impact of inflation on the operations or financial condition of the company. Reported earnings and amounts shown for assets and liabilities reflect dollars paid at the time the transactions occurred. Increases in costs due to changes in the purchasing power of the dollar and changes in specific prices are not reflected in the financial statements until new assets are acquired. Thus, financial statements prepared on an historical cost basis reflect assets and expenses at yesterday's cost and not at today's value. The difference is considered to be inflation.

In an effort to provide the reader of the financial statements with an indication of the impact of inflation, the following tables of supplementary financial information show the results of adjustments of the historical data for the effect of changes in general price levels and of changes in specific prices. This illustration of the economic effect of inflation involves approximations and assumptions that are not normally present in financial reports stated at historical cost. The resulting information should, therefore, be considered an estimate rather than a precise indication of the effect of inflation on the operations and financial position of the company.

The "constant dollar" method of accounting provides earnings information adjusted for the general effect of inflation using the Consumer Price Index for all Urban Consumers. The objective of this method is to restate historical cost dollars into constant dollars of equivalent purchasing power so that current revenues are matched with expenses with both expressed in a common unit of measure.

The "current cost" method of accounting adjusts for specific changes which have been experienced by the company in prices of inventories and property, plant and equipment. These assets are stated at their most recent, or replacement, cost rather than at historical cost.

Under the current cost method of accounting, income after taxes from continuing operations is 87% of the historical cost amount. Total income including the gain in purchasing power of net monetary liabilities is 111% of the historical cost amount. This implies that the historical cost financial statements reflect most of the effects of inflation.

Under both methods of accounting for operations, only cost of sales and depreciation have been adjusted for general inflation or changes in specific prices. Revenues, other operating expenses, interest expense and taxes on income are considered to reflect average price levels for the year and, therefore, have not been adjusted.

Cost of sales under both methods of accounting is approximately the same as that shown in the historical financial statements because of the application of the LIFO method of accounting to substantially all of the company's inventories. This is an indication that the company's inflation rate in product cost is essentially the same as the national inflation rate. Depreciation expense computed under both the constant dollar and current cost accounting methods is essentially the same because the rate of inflation experienced by the company during the year is approximately the same as the general rate of inflation.

For purposes of this supplementary information, taxes on income should be the same as those charged against income from continuing operations in the primary financial statements. This is appropriate because inflation adjustments related to the increased cost of plant and equipment are not deductible under present income tax regulations. The tax regulations do, however, recognize the real cost of inflation on inventories for those companies, like Foremost-McKesson, which use the LIFO method of accounting for financial reporting purposes.

The caption "Gain in purchasing power of net monetary liabilities" shows the net effect of inflation on those assets and liabilities which represent fixed monetary amounts. As the general purchasing power of the dollar declines during inflationary periods, companies with a net monetary liability position sustain an unrealized gain because of their ability to repay the liabilities with dollars of lesser value.

The data on dividends per common share and market price at year end indicate that the significant increases in dividends and capital appreciation which the company's stockholders have experienced in the past five years have been seriously eroded by inflation. In terms of historical dollars, the common stock dividend has increased 94% and the market price at year end 132% since 1979. However, in terms of dollars adjusted for general inflation, the increase is a still substantial 33% for common stock dividend and 59% for market price at year end.

Supplemental financial data adjusted for changing prices for the year ended March 31, 1983 (unaudited)

Statement of Consolidated Income (in thousands except per share amounts)	As Reported (Historical Cost)	Adjusted For General Price Changes (Constant Dollar)	Adjusted For Specific Price Changes (Current Cost)
Revenues	$4,081,481	$4,081,481	$4,081,481
Cost of sales, excluding depreciation	3,348,012	3,344,781	3,349,038
Depreciation expense	30,488	38,938	37,760
Other operating expenses, excluding depreciation	556,603	556,603	556,603
Interest expense	31,565	31,565	31,565
Taxes on income	51,605	51,605	51,605
Total	4,018,273	4,023,492	4,026,571
Income after taxes from continuing operations	63,208	57,989	54,910
Gain in purchasing power of net monetary liabilities		15,360	15,360
Total	$ 63,208	$ 73,349	$ 70,270
Fully diluted earnings per common share from continuing operations	$3.44	$3.17	$3.02
Purchasing power gain per share		.78	.78
Total	$3.44	$3.95	$3.80
Primary earnings per common share from continuing operations	$3.76	$3.45	$3.26
Purchasing power gain per share		.93	.93
Total	$3.76	$4.38	$4.19
Other Financial Information			
Increase in general price level of inventories and net property, plant and equipment held during the year			$30,179
Effect of increase in current cost			10,701
Excess of increase in general price level over increase in current cost			$19,478
Net assets–at year end			
Inventories	$418,993	$521,236	$521,949
Property, plant and equipment	250,218	332,277	339,758
Other assets	703,601	703,601	703,601
Liabilities	(862,529)	(862,529)	(862,529)
Net	$510,283	$694,585	$702,779

Five-Year Summary (unaudited)

(in thousands except per share amounts)	**1983**	1982	1981	1980	1979
Historical Cost Information					
Revenues	**$4,081,481**	$3,823,958	$3,460,074	$3,040,188	$2,681,139
Income from continuing operations	**63,208**	65,824	55,682	43,779	45,196
Earnings per common share–continuing operations					
Fully diluted	**3.44**	3.72	3.11	2.50	2.59
Primary	**3.76**	4.10	3.46	2.85	3.13
Net assets at year-end	**510,283**	481,539	480,217	424,390	378,071
Dividends per common share	**2.40**	2.24	2.00	1.67	1.24
Market price per common share at year-end	**43.00**	31.00	36.50	23.375	18.50
Constant Dollar Information					
Revenues	**$4,081,481**	$4,021,083	$3,983,045	$3,944,941	$3,908,487
Income from continuing operations	**57,989**	51,221	31,618	5,984	
Earnings per common share–continuing operations					
Fully diluted	**3.17**	2.94	1.79	.26	
Primary	**3.45**	3.18	1.93	.26	
Net assets at year-end	**694,585**	673,714	664,553	649,334	
Dividends per common share	**2.40**	2.36	2.30	2.17	1.81
Market price per common share at year-end	**43.00**	32.60	42.02	30.33	26.97
Average consumer price index–fiscal year	**292**	277	253	225	200
Current Cost Information					
Income from continuing operations	**$ 54,910**	$ 53,297	$ 46,257	$ 37,289	
Earnings per common share–continuing operations					
Fully diluted	**3.02**	3.05	2.59	2.14	
Primary	**3.26**	3.31	2.86	2.41	
Excess of increase in general price level over increase in current cost	**19,478**	(1,732)	17,500	13,611	
Gain in purchasing power of net monetary liabilities	**15,360**	26,252	42,050	51,188	
Net assets at year-end	**702,779**	683,591	687,601	681,045	

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Foremost-McKesson, Inc. is responsible for the preparation and accuracy of the financial statements and other information included in this report. The financial statements have been prepared in conformity with generally accepted accounting principles using, where appropriate, management's best estimates and judgments.

In meeting its responsibility for the reliability of the financial statements, the company depends on its system of internal accounting control. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed as authorized and are properly recorded. The system is augmented by written policies and procedures and an internal audit department.

Deloitte Haskins & Sells, the company's independent auditors, have examined the financial statements in accordance with generally accepted auditing standards and their opinion appears to the right.

The Board of Directors reviews the financial statements and reporting practices of the company through its Audit Committee, which is composed entirely of directors who are not officers or employees of the company. The committee meets regularly with the independent auditors, internal auditors and management to discuss audit scope and results and to consider internal control and financial reporting matters. Both the independent and internal auditors have unrestricted access to the Audit Committee.

Thomas E. Drohan

Thomas E. Drohan
President and
Chief Executive Officer

Neil E. Harlan

Neil E. Harlan
Chairman of the Board

Opinion of Independent Auditors

Deloitte Haskins & Sells
44 Montgomery Street
San Francisco, California 94104

The Stockholders and Board of Directors
of Foremost-McKesson, Inc.:

We have examined the consolidated balance sheets of Foremost-McKesson, Inc. and subsidiaries as of March 31, 1983, 1982 and 1981 and the related statements of consolidated income, changes in consolidated preferred stocks and common stockholder equity, and changes in consolidated financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at March 31, 1983, 1982 and 1981 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

May 23, 1983

EMPLOYEE VOLUNTEERS VITALIZE GIVING PROGRAM

When employees at Foremost-Gentry in Gilroy, California, learned about the hungry families living in a migrant worker camp near their plant last winter, they collected more than 1,200 pounds of food to help them. Word of their response spread quickly to other Foremost-McKesson employees in the San Francisco Bay Area, and within a few days several more truckloads of food, warm clothing and other essentials were on their way to the camp.

"Employees in Gilroy are the latest addition to our growing network of Community Action Teams," says Madge Winston, community relations coordinator. "Throughout the San Francisco Bay Area and in southern California, our employees have added greater dimension to the activities of the Foremost-McKesson Foundation and the company's community relations program by leveraging dollar contributions with active volunteer support."

From tutoring students and coaching Special Olympics athletes to planning outings for senior citizens, Foremost-McKesson employees use their spare time to contribute to a better way of life in their communities. They provide technical and management assistance to nonprofit agencies, serve on boards of directors and help raise funds by participating in everything from walkathons to telethons. And, as in Gilroy, they respond to emergency needs by finding ways to feed the hungry, house the homeless and offer friendship to the lonely and infirm.

"Whenever we can," says Marcia Argyris, president of the Foremost-McKesson Foundation, "we look to create partnerships between the private and public sectors by combining our mutual human and financial resources to help community organizations help themselves."

In fiscal 1983, Foremost-McKesson contributed more than \$2.3 million in grants to public service organizations. This represents 2% of prior-year pretax profits. "We became a founding member of the San Francisco Bay Area Corporate Two Percent Club in 1981," says Argyris, "and at that time we committed to increasing our cash contributions to at least 2% of pretax profits within four years. We did, in fact, meet that goal in the first year."

As the corporation's principal philanthropic entity, the Foundation made contributions of nearly \$1.25 million in fiscal 1983—almost double its prior year's level. Direct contributions of funds and merchandise from the corporation totaled \$540,000, and its operating groups collectively added more than \$550,000.

Last year, 41% of the Foundation budget was allocated to health and welfare programs. An additional 21% funded educational programs, 15% supported culture and the arts, 14% went to civic and neighborhood improvement programs and 9% supplemented international and employee involvement programs and Foundation operating expenses.

"Until now, we've focused on the needs of the San Francisco Bay Area, our corporate headquarters and largest employee center," says Argyris. "But during this fiscal year, we plan to begin to formally expand our philanthropy program to Los Angeles, New York, Phoenix and Dallas." To help kick off the Foundation's expansion to other states, Foremost-McKesson will sponsor an 11-city tour of the San Francisco Symphony this fall as part of the company's 150th anniversary celebration. Proceeds from two San Francisco concerts will be given to charity, and 10% of ticket sales in each tour city will be donated to a local community agency.

Two years ago, the Foundation established a Community Action Fund to encourage employees to apply for grants on behalf of eligible non-profit organizations with which they are actively involved. "Last year," says Argyris, "we made 14 grants totaling more than \$9,000 to organizations identified by our employees." Use of the funds ranged from purchasing law books for a senior citizens' legal assistance program to replacing stolen basketball uniforms to installing bleachers in a Little League ball park.

Foremost-McKesson employees participate in the political process through a nonpartisan federal-level political action committee, or PAC. "Despite a poor economy," says Susan Weir, Information Services personnel manager and last year's committee chairwoman, "we raised over \$24,000—more than double our 1980 amount—by soliciting voluntary, confidential contributions from eligible employees."

For copies of the Foundation annual report, write to the Foremost-McKesson Foundation, One Post Street, San Francisco, CA 94104, or call (415) 983-8673. For copies of the Employees' Political Fund 1982 report, write to the Public Affairs Department at the same address, or call (415) 983-8333.

AFTER 150 YEARS, JOHN McKESSON WOULDN'T KNOW HIS LITTLE COMPANY

The year was 1938. Americans curled up by their radios, listening to favorites like Kate Smith and the Aldrich Family, or lined up at the movies for 23¢ magic carpet rides with Carol Lombard, Norma Shearer and Clark Gable. It was Franklin D. Roosevelt's second term in office, and the country was emerging from the Great Depression to find the world beginning to be transformed by time-saving wonders such as frozen foods, cellophane and electric toasters.

On Wall Street, the investment community was about to witness one of the most bizarre episodes in the history of American business. F. Donald Coster, a small, bespectacled man who claimed a Ph.D. and an M.D. from Heidelberg University, had earned a reputation as a financial genius for reviving the century-old drug firm of McKesson & Robbins, which he had purchased in 1926 for $1 million. Through a variety of marketing and distribution schemes, he had raised the company's sales to $174 million, its earnings to $4 million and its assets to $87 million within a decade.

So impressed were American businessmen with Coster's financial acumen that in 1937 he was asked to run for the Republican nomination for President, a request he modestly turned down. Coster had, in fact, a very good reason for declining: He was successfully perpetrating one of the most magnificent masquerades America has ever seen.

In the last days of 1938, revelations about Coster stunned Wall Street and the nation. McKesson & Robbins' crude drug division, created and managed single-handedly by Coster, was found to be a fictitious operation designed to inflate the company's profits. What's more, it came to light that Coster had embezzled some $3 million from the firm, and that, finally, Coster wasn't Coster at all, but an ex-convict named Philip Musica. The scandal ended abruptly when Coster committed suicide at his home while FBI agents waited downstairs to arrest him.

No matter how bleak an episode this was in the company's 150-year history, the aftermath of the Coster scandal underscores the resilience of the McKesson firm. In the words of one prominent investment banker, "A company that can survive a scandal like that can survive anything." And McKesson & Robbins not only survived—it ultimately thrived, through internal upheaval, three major wars and years of boom and bust.

The firm grew up with the nation, altering its business mix as the needs of the country changed. From the days of the quill pen to the age of the computer, it has played a key role in the distribution of drugs, chemicals and spirits, a role it is still refining and expanding today.

It was in 1833 that John McKesson, the fourth-generation scion of a distinguished Colonial family, formed a partnership with Charles Olcott to import and wholesale drugs and chemicals. In their drug house near Manhattan's busy harbor, the partners collected oils and essences from Europe and medicinal roots, herbs and spices from Shaker colonies in Pennsylvania to stock the medicine chests of tall-masted clipper ships. Soon they were joined by a young assistant named Daniel Robbins, and when Olcott died in 1853 the firm was renamed McKesson & Robbins.

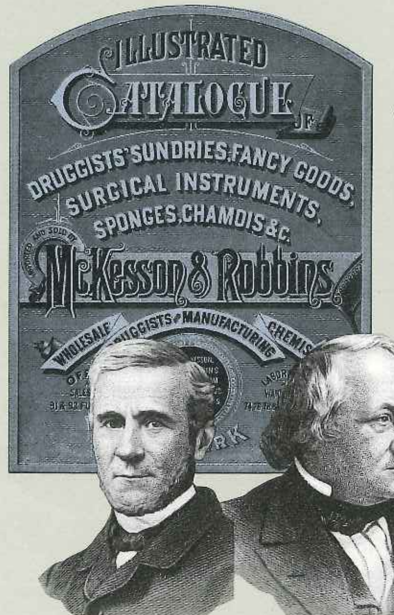
The company's reputation journeyed west with the stagecoaches and wagon trains that streamed across the country in the 1840s and '50s. Soon the company expanded its lines to include chamois skins and sponges, perfume extracts and mineral waters, and a complete supply of bristle brushes. McKesson & Robbins also became one of the first wholesale drug houses to install a drug-manufacturing laboratory, which earned medals in expositions of the 1870s.

At the turn of the century, however, the company's wholesale business faced growing competition from newer firms in the Midwest, and its import business was hard-hit by high tariffs and domestic competition. By the time Coster bought the company in 1926, little remained but McKesson & Robbins' name. Its distributing business had been shut down, and all that was left of its manufacturing department was a factory in Brooklyn.

Under Coster's effective if misguided direction, McKesson & Robbins rebounded. In the golden days of the late 1920s, the new McKesson & Robbins turned in brisk profits and basked once again in the admiration of the nation's drug industry. The company had introduced a new line of products and, more significantly, had persuaded many of the nation's largest independent wholesalers to become McKesson & Robbins subsidiaries. Independent retailers were offered the chance to buy stock in the parent company created by the mergers as well as a new "McKesson Plan of Service" comprised of modern selling techniques and a full line of McKesson products. The result was a nationwide McKesson network that rivaled the mammoth drug chains that were spreading across the country. So successful had the company become that it held on through the stock market crash and the Depression that gripped the country into the next decade.

In fact, McKesson & Robbins found opportunities to expand even when the country was in its worst financial throes. In 1933, Prohibition was repealed, and the manufacture and sale of alcoholic beverages once again was made legal. An importer of spirits since its earliest days, McKesson & Robbins quickly opened its doors as a liquor wholesaler and distributor, creating the forerunner of today's Wine & Spirits Group.

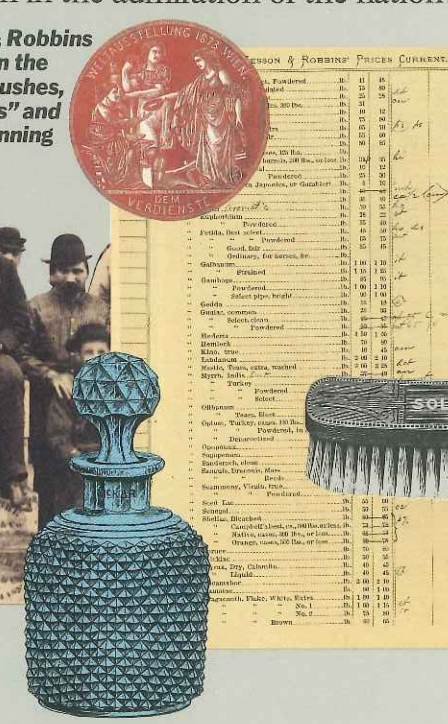
The Coster scandal caused the company a temporary setback, but it quickly resumed its growth. By 1945 it was ready to explore fresh opportunities in the industrious postwar economy. McKesson & Robbins set up a chemical distributing business to meet manufacturers' increasing needs for chemicals. The company had imported and distributed chemicals since the 1890s, and for many years some of its drug wholesale subsidiaries had operated chemical departments.



With the help of Daniel Robbins (left), John McKesson (right) turned his fledgling wholesale house into one of New York's most respected drug firms.

Langley & Michaels, McKesson & Robbins' San Francisco division, first sold McKesson goods from a tent in the city's sand hills during the California Gold Rush.

McKesson & Robbins was famed in the 1870s for brushes, "fancy goods" and its award-winning laboratory.



The bizarre masquerade of Dr. Coster, company president from 1926-1938, stunned America.

In the 1930s and '40s, the McKesson name was linked with popular health and beauty products and a thriving liquor operation. The chemical department, formed in 1945, added a third fast-growing business.

But in the booming postwar economy, the chemical business grew so rapidly that it was formally separated from the drug business, forming the predecessor of the current Chemical Group.

Throughout the 1950s and '60s, the three branches of McKesson & Robbins—drugs, liquors and chemicals—continued to expand. Then, in 1967, the company merged with Foremost Dairies, one of the nation's largest dairy operations. Founded in 1929 by the legendary retailer James Cash Penney, Foremost had grown by acquisition into a prosperous dairy company with operations all across the nation and in Asia. But in 1962, the Federal Trade Commission directed the company to divest its operations east of the Mississippi. Foremost then launched a diversification program, acquiring the Sparkletts and Alhambra water companies and then merging with McKesson & Robbins.

The resulting corporation, Foremost-McKesson, had 18,400 employees, more than 420 locations and annual sales of more than $1.4 billion. At first it operated somewhat as a holding company made up of autonomous business units which planned and managed their own operations and assets.

In 1976, however, the company launched its first five-year plan, designed to improve its efficiency and profitability. Under President and Chief Executive Officer William Morison, it began to move investments out of slow-growth, marginally profitable businesses into those promising strong future growth in profits and return on investments.

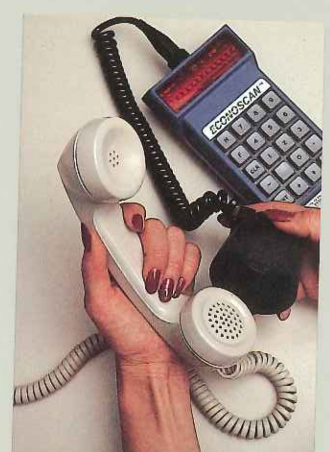
The strategy worked. By 1980 Foremost-McKesson had achieved a 24% growth in profits through consolidations and reinvestment. The company had acquired Gentry International and the C.F. Mueller Co., which broadened the Foods Group's base to include pasta and dehydrated vegetables. The Wine & Spirits Group had established Carlton Importing Company, and the Drug & Health Care Group had created the Valu-Rite association of independent drugstores and added Armor All to its group of businesses.

At the same time, Foremost-McKesson began to revolutionize the way products were distributed. With its "Econo" line of computer services for retail drugstore customers, Foremost-McKesson helped shift the drug distribution business out of the slow-moving days of order pads into the high-speed, information-intensive computer age. The old "McKesson Plan of Service" created in the 1930s to assist drug retailers had become a sophisticated, high-technology *Value-Added Distribution* system that boosted the Drug & Health Care Group to the top of the drug distribution industry. The story was the same for the Chemical Group, which added recycling to its *Value-Added Distribution* services for customers. The Wine & Spirits Group developed a comprehensive marketing information system, assuring suppliers of maximum market penetration and customers of superior service.

Continuing its strategy of reinvesting in businesses promising strong future growth, the company divested its dairy operation in 1983. Now, with a clearly stated commitment to *Value-Added Distribution* businesses and high-growth proprietary products and services, the stage is set for another era of prosperity and growth.

In 1967 McKesson & Robbins merged with Foremost Dairies, an international operation known as "the longest milk route in the world."

Foremost-McKesson's first five-year plan in 1976 moved investments into promising new businesses. Mueller's pasta broadened the product base of the Foods Group.



The company's "Econo" line of computerized services for drugstores helped lead a revolution in the way goods are distributed and has resulted in internal gains in efficiency and productivity.

FOREMOST-McKESSON'S BUSINESSES

Corporate Headquarters
Foremost-McKesson, Inc.
One Post Street
San Francisco, California 94104
(415) 983-8300

Foremost-McKesson Drug & Health Care Group
San Francisco, California
President: Kenneth L. Larson

McKesson Drug Company
San Francisco, California
Executive Vice President:
Rex R. Malson
Distributor of ethical and proprietary pharmaceuticals, health and beauty aids and sundries to retail drugstores, food stores, mass merchandisers and hospital pharmacies.

Valu-Rite Pharmacies, Inc.
Orange, California
President: Ronald N. Bone
Voluntary chain program for independent and small chain drugstores; provider of advertising/promotional programs, private-label products and other services to members.

Skaggs-Stone
South San Francisco, California
President: C. Fred Toney
Distributor of general sundry merchandise to variety stores, supermarkets, drugstores and other retailers.

Foremost-McKesson Chemical Group
San Francisco, California
President: Barry B. Blocker

McKesson Chemical Company
San Francisco, California
Vice President and General Manager:
Charles A. Thompson
Full-line distributor of industrial and fine chemicals in less-than-truckload lots to a full range of industrial users.

McKesson Envirosystems Company
San Francisco, California
Vice President and General Manager:
David J. Schoonmaker
Chemical recycling company that refines spent solvents and markets the recycled product to chemical users.

McKesson Environmental Services
Dublin, California
General Manager:
M. Dale Sands
A technical services consulting organization that assists clients in analyzing and monitoring environmental compliance programs.

Foremost-McKesson Wine & Spirits Group
New York, New York
President:
Raymond R. Herrmann, Jr.

McKesson Wine & Spirits Co.
New York, New York
Executive Vice President:
Robert S. Viscount
Distributor of imported and domestic wines, spirits and beers.

Carlton Importing Company
New York, New York
President: Richard R. Fogarty
Importer/marketer of malt beverage products, including St. Pauli Girl and San Miguel beers.

Galliano International
New York, New York
President: Joseph L. Gorlach
Manufacturer/importer of Liquore Galliano, Amaretto and Sambuca di Galliano; marketer of Galliano products, Mount Gay rum and Mohawk products outside of the U.S.

Mohawk Liqueur Corporation
Detroit, Michigan
Chief Executive Officer and Executive Vice President:
Duane Maas
Manufacturer/marketer of Mohawk cordials, vodka, gin and rum; importer/marketer of Martin's V.V.O. and Muirhead Scotches and Chartreuse liqueurs; contract bottler.

Mosswood Wine Company
San Francisco, California
President: Gerald Asher
Marketer of chateau and estate-quality European and California wines; creator/developer of proprietary brands.

"21" Brands, Inc.
New York, New York
President: John H. Hobbs
Marketer of imported wines, imported and domestic spirits, including Liquore Galliano; Emmets, Ireland's Cream Liqueur; Ballantine's Scotch; Canadian Rich & Rare; Mount Gay rum; Tio Pepe Sherry; Folonari and Rosegarden wines.

Foremost-McKesson Foods Group
San Francisco, California
President: H. Eugene Blattman

Foremost-McKesson Water Division
Los Angeles, California
Vice President and General Manager: Douglas E. Nelson
Processor/marketer of bottled and machine-vended water under Alhambra, Crystal, Sparkletts and Aqua-Vend brands.

Foremost-McKesson Grocery Products Division
Jersey City, New Jersey
Vice President and General Manager:
G. Clinton Merrick
Manufacturer/marketer of Mueller's pasta products.

Foremost Food Ingredients Division
San Francisco, California
Vice President and General Manager: Gerald J. Treleven
Processor/manufacturer of lactose and whey products, and Gentry dehydrated garlic, onions and chili peppers.

Foremost-McKesson Development Group
San Francisco, California
President: Roy B. Miner
Identifies, develops and serves as a logical entry point for new businesses which have the potential to make an important contribution to the corporation in the next five to ten years.

Armor All Products
Irvine, California
President: Alan Rypinski
Manufacturer of Armor All Protectant, Cleaner and Ultra-Plate appearance-protection products for home and automotive use.

Pharmaceutical Card System
Phoenix, Arizona
President: Donald B. Dahlin
Processor of third-party prescription drug claims; provider of computer-based marketing services for pharmaceutical companies.

California Culinary Academy
San Francisco, California
President: Danielle Carlisle
A school for professional chefs, specializing in the art of French and continental cuisine.

California Sommelier Academy
San Francisco, California
Managing Director:
David W. Howard
A school for restaurant and hotel personnel, teaching proper selection, service and sales techniques for wines.

Foremost-McKesson International
San Francisco, California
President:
Bernard J. Hargadon, Jr.
Manufacturer/marketer/distributor of dairy, pharmaceutical, health and personal care products in 19 countries.

Foremost-McKesson Property Group*
San Francisco, California
President: John A. Ditz

Ditz-Crane, Inc.
Santa Clara, California
President: John A. Ditz

Ditz-Crane of Arizona, Inc.
Phoenix, Arizona
President: Alan Seelenfreund

Crocker Homes, Inc.
Dublin, California
President: Alan Seelenfreund

*Discontinued Operation

SHAREHOLDER INFORMATION

"800" Telephone Line Links Shareholders with Foremost-McKesson
To obtain the latest information about Foremost-McKesson and a brief summary of stock market activity, dial toll-free (800) 362-6397.

Recorded information, updated twice daily, includes the current price of Foremost-McKesson stock, the Dow Jones Industrial Average and the volume traded on the New York Stock Exchange. The report also includes brief messages from Foremost-McKesson management about business developments, new products and markets, and sales and earnings reports. The system also permits callers to leave recorded messages requesting additional information.

Annual Meeting to Be Held July 27 in San Francisco
The annual meeting of Foremost-McKesson, Inc., shareholders will be held at 10:00 a.m. on Wednesday, July 27, 1983, at the Masonic Memorial Auditorium, 1111 California Street, San Francisco. A proxy card and proxy statement will be mailed to all shareholders approximately five weeks before the meeting. Proxy cards should be signed, dated and returned promptly to ensure that all shares are represented at the meeting and voted in accordance with the instructions of their holders. Shareholders are encouraged to attend the annual meeting.

About Your Stock and Records
The common and preferred stocks of Foremost-McKesson, Inc., are listed on the New York and Pacific Stock Exchanges and are quoted in the daily stock tables carried by most newspapers. The ticker symbol for Foremost-McKesson common stock is FOR, and Series A Preferred stock is listed as FOR Pr. The stock table abbreviation for the common stock is ForMK, and for Series A Preferred it is FMK.

Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015, acts as transfer agent, registrar and dividend-paying agent for Foremost-McKesson stock and maintains all shareholder records for the corporation.

Dividend Payments Mailed Quarterly
"Shareholder of record" refers to a shareholder who is entitled to receive a dividend on the "payable date" if he or she was listed as a Foremost-McKesson shareholder on the "record date" (approximately 30 days prior to the payable date for common stock and 15 days for preferred stock).

Quarterly dividends are mailed with the intent of reaching shareholders of common stock on the first business day of January, April, July and October, and shareholders of preferred stock on the 15th of March, June, September and December. Postal delays may cause actual receipt dates to vary.

Automatic Reinvestment of Dividends
Foremost-McKesson shareholders may choose to increase their investment in the company by reinvesting dividends from common and preferred stock automatically in additional Foremost-McKesson common shares.

Quarterly dividends of shareholders participating in the Dividend Reinvestment Plan are sent directly to Citibank, N.A., in New York. Citibank purchases the shares at market price, credits shareholder accounts and issues a quarterly statement of account status to each participant. The plan also allows participants to buy additional Foremost-McKesson shares through optional cash payments of up to $3,000 per quarter. All brokerage acquisition expenses are paid by Foremost-McKesson.

For more information, contact Dana T. Iapicca, assistant secretary, Foremost-McKesson, Corporate Headquarters.

Tax Reports On Dividend Income
Foremost-McKesson is required to report to the Internal Revenue Service the total amount of shareholder dividends paid each year. Form 1099, which contains the information supplied by the transfer agent to the IRS for each shareholder account, and Form 1087, which covers dividends reinvested under the Dividend Reinvestment Plan and brokerage fees and commissions paid by Foremost-McKesson under the Plan, will be mailed to shareholders at the end of the calendar year.

Lost Checks and Certificates
Lost dividend checks often aren't lost, but are meandering through the postal system trying to catch up with a shareholder who moved and didn't notify the transfer agent.

It's easy to make an address change. On every dividend check, there is a circle which may be punched out to indicate a change of address. In processing canceled checks, the computer sorts out punched checks to alert the transfer agent to change the records.

Lost certificates may be replaced only after issuance of an indemnity bond, for which a premium of about 3% of the market value of the stock is charged by an insurance company. Shareholders should generally deal directly with their brokers and the transfer agent who maintains shareholder records. However, if a problem arises that they can't resolve, Foremost-McKesson's assistant secretary will be glad to help.

Shareholders Invited to California Culinary Academy
The Foremost-McKesson-owned California Culinary Academy is modeled after two Swiss cooking schools. The academy's rigorous 16-month program trains students in French and continental cuisine.

The students prepare and serve meals in a restaurant open to the public for lunch and dinner. Shareholders are invited to visit the restaurant at 215 Fremont Street, San Francisco. Reservations are necessary and may be made by phoning (415) 546-1316.

Shareholder Contacts at Foremost-McKesson
Questions about shareholdings, dividends, address changes or lost certificates should be directed to Dana T. Iapicca, assistant secretary, Foremost-McKesson, Inc., One Post Street, San Francisco, CA 94104; or call (415) 983-8367.

Questions about activities of the company and operating results should be directed to Judith A. Raybin, investor relations manager, Foremost-McKesson, Inc., at the same address; or call (415) 983-9044.

Additional Information Available to Shareholders
Responses to questions most frequently asked by Foremost-McKesson shareholders are included in a brochure available by writing to the Corporate Relations Department, Box B, Foremost-McKesson, Inc., One Post Street, San Francisco, CA 94104.

Form 10-K Available on Request
Shareholders may obtain copies of the corporation's Form 10-K annual report to the Securities and Exchange Commission without charge. Requests for this document should be addressed to the Corporate Relations Department, Box K, Foremost-McKesson, Inc., One Post Street, San Francisco, CA 94104.

DIRECTORS AND OFFICERS

Board of Directors

Robert R. Dockson
Chairman of the Board and Chief Executive Officer, California Federal Savings & Loan Association, Los Angeles, California

Thomas E. Drohan
President and Chief Executive Officer, Foremost-McKesson, Inc.

Neil E. Harlan
Chairman of the Board of Directors, Foremost-McKesson, Inc.

Raymond R. Herrmann, Jr.
Vice President, Foremost-McKesson, Inc. and President, Foremost-McKesson Wine & Spirits Group

Leslie L. Luttgens
Leader of civic, public service and cultural activities on a community and national basis, San Francisco, California

Roy B. Miner
Vice President, Foremost-McKesson, Inc. and President, Foremost-McKesson Development Group

William W. Morison
Retired, former Chairman of the Board of Directors, President and Chief Executive Officer, Foremost-McKesson, Inc., San Francisco, California

Joseph R. Rensch
President, Pacific Lighting Corporation, Los Angeles, California

Ezra Solomon
Dean Witter Professor of Finance, Stanford University Graduate School of Business, Stanford, California

Malcolm Toon
Retired, former U.S. Ambassador to U.S.S.R., Bethesda, Maryland

Eugene B. Walsh
Management Consultant; Retired, former Chairman and Chief Executive Officer, Ralphs Grocery Company, Pasadena, California

Directors Emeriti

Schuyler Merritt II
Retired

Herman C. Nolen
Retired, former Chairman of the Board of Directors, McKesson & Robbins, Inc.

Principal Executive Officers

Thomas E. Drohan
President and Chief Executive Officer

Neil E. Harlan
Chairman of the Board of Directors

Group Presidents

H. Eugene Blattman
Vice President of the Corporation and President, Foremost-McKesson Foods Group

Barry B. Blocker
Vice President of the Corporation and President, Foremost-McKesson Chemical Group

John A. Ditz
Vice President of the Corporation and President, Foremost-McKesson Property Group

Raymond R. Herrmann, Jr.
Vice President of the Corporation and President, Foremost-McKesson Wine & Spirits Group

Kenneth L. Larson
Vice President of the Corporation and President, Foremost-McKesson Drug & Health Care Group

Roy B. Miner
Vice President of the Corporation and President, Foremost-McKesson Development Group

Corporate Staff

James I. Johnston
Vice President, Personnel

Marvin L. Krasnansky
Vice President, Corporate Relations

Nancy A. Miller
Secretary

Alan J. Seelenfreund
Vice President, Finance

Garret A. Scholz
Treasurer

Thomas B. Simone
Controller

Arthur G. Weiner
Vice President, Procurement, Transportation and Engineering

John S. Wheaton
Vice President, Planning and Analysis

Donald J. Yellon
Vice President and General Counsel

Executive Committee

William W. Morison, Chairman
Robert R. Dockson
Thomas E. Drohan
Neil E. Harlan
Joseph R. Rensch
Ezra Solomon
Malcolm Toon

Audit Committee

Eugene B. Walsh, Chairman
Ezra Solomon
Malcolm Toon

Compensation Committee

Robert R. Dockson, Chairman
Leslie L. Luttgens
Joseph R. Rensch

Public Policy Committee

Leslie L. Luttgens, Chairwoman
William W. Morison
Malcolm Toon
Eugene B. Walsh

Contributions Committee

Marvin L. Krasnansky, Chairman
James S. Cohune
James I. Johnston
David L. Ringler

Employee Benefits Committee

Alan J. Seelenfreund, Chairman
H. Eugene Blattman
Barry B. Blocker
Donald B. Dahlin
James I. Johnston
Kenneth L. Larson
Donald J. Yellon

McKesson Chemical Company

Financial Assurance Mechanism for Closure and Liability Requirements

(40 CFR Sec. 122.25(a)(15), 264.143, 264.151, 122.25(a)(17)

264.147, 122.25(a)(18), 264.149, 264.150)

McKesson Chemical Company, through its parent corporation Foremost-McKesson, Incorporated of One Post Street, San Francisco, California, on July 5, 1982, provided to the Office of the Regional Administrator, Region V, the necessary financial tests and assurances, as well as the required guarantee for subsidiaries, for closure and liability assurance requirements.

Immediately following this narrative will be found a copy of our Corporate Senior Counsel's letter dated July 5, 1982, submitting necessary information to fulfill this financial test and assurance. Included also are the following as outlined in his letter:

1. The letter of Neil E. Harlan, Chairman of the Board and Chief Financial Officer of Foremost-McKesson, Incorporated.
2. The Annual Report of Foremost-McKesson, Incorporated for the fiscal year ended March 31, 1982, which report contains the independent certified public accountant's report on the financial statements of the Foremost Group.
3. The special report of DeLoitte, Haskins & Sells to the effect specified in the regulations.

It should be noted in the included materials that these assurances are being presented for closure, post-closure, and liability requirements. The Post-closure cost estimate and financial assurances for such do not apply to a temporary storage facility. Both closure and liability requirements should be adequately met by the included information.

July 5, 1982

Foremost-McKesson, Inc.
One Post Street
San Francisco, CA 94104
415 983 8319

Ivan D. Meyerson
Assistant General Counsel

Office of the Regional Administrator
Environmental Protection Agency
Region V
Federal Building
230 South Dearborn
Chicago, Illinois 60604

FOREMOST
McKESSON

Dear Sir/Madam:

On behalf of Foremost-McKesson, Inc. and its wholly-owned subsidiaries (the "Foremost Group"), we hereby submit the enclosed documents to meet the financial test and to demonstrate the financial responsibility of the Foremost Group under the standards of the Environmental Protection Agency applicable to owners and operators of hazardous waste treatment, storage, and disposal facilities:

1. The letter of Neil E. Harlan, Chairman of the Board and Chief Financial Officer of Foremost-McKesson, Inc.;

2. The Annual Report of Foremost-McKesson, Inc. for the fiscal year ended March 31, 1982, which Report contains the independent certified public accountant's report on the financial statements of the Foremost Group; and

3. The special report of DeLoitte, Haskins & Sells to the effect specified in the regulations.

The facilities owned by the Foremost Group are either operated by McKesson Chemical Company or McKesson Envirosystems Company. Please note that we are submitting this material to satisfy both the requirements for liability coverage, and closure/postclosure care. Note further that the figure used for the sum of closure cost estimates is an aggregate of the estimates for the facilities in <u>all</u> EPA regions -- although only the specific facilities in your region are listed in Mr. Harlan's letter.

I trust you will find all of the enclosed material in order; however, should you have questions or require further information or details, please address all inquiries on this matter to me. Thank you very much.

Very truly yours,

Ivan D. Meyerson
Assistant General Counsel

IDM/smc
Encl.

Foremost-McKesson, Inc.
One Post Street
San Francisco, CA 94104
415 983 8300

July 5, 1982

Office of the Regional Administrator
Environmental Protection Agency
Region V
Federal Building
230 South Dearborn
Chicago, Illinois 60604

Re: Foremost-McKesson, Inc. Financial Tests
for Liability, Closure & Post-Closure Care

Dear Sir or Madam:

I am the Chief Financial Officer of Foremost-McKesson, Inc. ("Foremost") located at One Post Street, San Francisco, California 94104. This letter is in support of the use of the financial test to demonstrate financial responsibility for liability coverage and closure and/or post-closure care as specified in Subpart H of 40 CFR Parts 264 and 265.

Foremost is the owner or operator of the following facilities for which liability coverage is being demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265:

*See Exhibit "A" attached hereto and fully incorporated herein by reference.

1. Foremost owns or operates the following facilities for which financial assurance for closure or post-closure care is demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265. The current closure and/or post-closure cost estimates covered by the test are shown for each facility:

*See Exhibit "B" attached hereto and fully incorporated herein by reference.

2. Foremost guarantees through the corporate guarantee specified in Subpart H of 40 CFR Parts 264 and 265, the closure and post-closure care of the following facilities owned or operated by its subsidiaries. The current cost estimates for the closure or post-closure care so guaranteed are shown for each facility.

*See Exhibit "C" attached hereto and fully incorporated herein by reference.

3. In states where EPA is not administering the financial requirements of Subpart H of 40 CFR Parts 264 and 265, Foremost is demonstrating financial assurance for the closure or post-closure care of the following facilities through the use of a test equivalent or substantially equivalent to the financial test specified in Subpart H of 40 CFR Parts 264 and 265. The current closure and/or post closure cost estimates covered by such a test are shown for each facility:

*None.

4. Foremost owns or operates the following hazardous waste management facilities for which financial assurance for closure or, if a disposal facility, post-closure care, is not demonstrated either to EPA or a state through the financial test or any other financial assurance mechanism specified in Subpart H or 40 CFR Parts 264 and 265 or equivalent or substantially equivalent state mechanisms. The current closure and/or post-closure cost estimates not covered by such financial assurance are shown for each facility:

*None.

Foremost is required to file a Form 10K with the Securities and Exchange Commission ("SEC") for the latest fiscal year.

The fiscal year of Foremost ends on March 31. The figures for the following items marked with an asterisk are derived from Foremost's independently audited, year-end financial statements for the latest completed fiscal year ended March 31, 1982:

ALTERNATIVE II

1.	Sum of current closure and post-closure cost estimates. (EPA Regions I-X)	$1,057,476
2.	Amount of annual aggregate liability coverage to be demonstrated.	$8,000,000
3.	Sum of lines 1 and 2.	$9,057,476
4.	Current bond rating of most recent issuance and name of rating service:	Moody's - A
5.	Date of issuance of bond.	April 1, 1982

6.	Date of maturity of bond.	April 1, 2012
*7.	Tangible Net Worth.	$390,227,000
8.	Total assets in the U.S.	Not Applicable
9.	Is line 7 at least $10 Million?	Yes
10.	Is line 7 at least 6 times line 3?	Yes
*11.	Are at least 90% of assets located in the U.S.?	Yes

I hereby certify that the wording of this letter is identical to the wording specified in 40 CFR 264.157(g) as such regulations were constituted on the date shown immediately below.

Neil E. Harlan
Chairman of the Board
Foremost-McKesson, Inc.

July 5, 1982

EPA REGION V

Facility Address	EPA #
Cincinnati - 3025 Exon Avenue Evendale, Cincinnati, Ohio 45241	#OHDO02899847
Cleveland - 26601 Richmond Road Bedford Heights, OH 44146	#OHDO71107791
Columbus - 1795 E. Moler Road Columbus, OH 43207	#OHDO39991690
Dayton - 2228 W. Dorothy Lane Dayton, Ohio 45439	#OHDO00780338
Detroit - 27001 Trolley Industrial Drive Taylor, MI 48180	#MIDO10861524
Grand Rapids - 4975 Starr Street S.E. Grand Rapids, MI 49506	#MIDO53670063
Appleton - P.O. Box 23 Appleton, WI 54911 1836 W. Rogers Avenue	#WIDO30177620
Bloomington - 2010 N. Eagle Road Normal, IL 61761	#ILDO00781633
Chicago - 600 Hunter Drive Oak Brook, IL 60521	#ILD070687165
Chicago Heights - P.O. Box 456 Chicago Heights, IL 60411	#ILDO47029228

EXHIBIT "A"

EPA REGION V CONTINUED:

Dolton (Repack Center) 633 138th Street P.O. Box 304 Dolton, IL 60419	#ILD000781641
Milwaukee (West Allis) P.O. Box 14545 Milwaukee, WI 53214 1707 S. 101st Street West Allis, WI	#WIDO40784936
Minneapolis - 111 22nd Avenue, N.E. Minneapolis, MN 55418	#MNDO54497052
Schaumburg - 2055 Hammond Drive Schaumburg, IL 60195	#ILDO00819938
McKesson Envirosystems Company Recycling Facility 633 East 138th Street Dolton, Illinois	#ILD005097670

EXHIBIT "A"

EPA REGION V

Facility Address	EPA #	Closure/Post-Closure Cost Estimates
Cincinnati - 3025 Exon Avenue Evendale, Cincinnati, Ohio 45241	#OHDO02899847	$ 308
Cleveland - 26601 Richmond Road Bedford Heights, OH 44146	#OHDO71107791	$ 937
Columbus - 1795 E. Moler Road Columbus, OH 43207	#OHDO39991690	$ 523
Dayton - 2228 W. Dorothy Lane Dayton, Ohio 45439	#OHDOO0780338	$ 689
Detroit - 27001 Trolley Industrial Drive Taylor, MI 48180	#MIDO10861524	$ 1,094
Grand Rapids - 4975 Starr Street S.E. Grand Rapids, MI 49506	#MIDO53670063	$ 1,587
Appleton - P.O. Box 23 Appleton, WI 54911 1836 W. Rogers Avenue	#WIDO30177620	$ 5,952
Bloomington - 2010 N. Eagle Road Normal, IL 61761	#ILDO00781633	$ 5,460
Chicago - 600 Hunter Drive Oak Brook, IL 60521	#ILD070687165	Central Regional Office
Chicago Heights - P.O. Box 456 Chicago Heights, IL 60411	#ILDO47029228	$ 6,240

EXHIBIT "B"

EPA REGION V CONTINUED:

Dolton (Repack Center) 633 138th Street P.O. Box 304 Dolton, IL 60419	#ILD000781641	
Milwaukee (West Allis) P.O. Box 14545 Milwaukee, WI 53214 1707 S. 101st Street West Allis, WI	#WID040784936	$ 5,876
Minneapolis - 111 22nd Avenue, N.E. Minneapolis, MN 55418	#MND054497052	$10,400
Schaumburg - 2055 Hammond Drive Schaumburg, IL 60195	#ILD00819938	$ 7,800
	TOTAL:	$46,866

EXHIBIT "B"

EPA REGION V

Facility Address	EPA #	Closure/Post-Closure Cost Estimate
633 East 138th Street Dolton, Illinois	ILD005097670	$122,000

The above facility is owned and operated by McKesson Envirosystems Company, a California corporation and wholly-owned subsidiary of Foremost-McKesson, Inc.

EXHIBIT "C"

Deloitte
Haskins+Sells

44 Montgomery Street
San Francisco, California 94104
(415) 393-4300
Telex 340336

Foremost-McKesson, Inc.:

We have examined the consolidated financial statements of Foremost-McKesson, Inc. for the year ended March 31, 1982, and have issued our report thereon dated May 21, 1982. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not performed any auditing procedures beyond the date of our opinion on the consolidated financial statements; accordingly, this letter is based on our knowledge as of that date and should be read with that understanding.

At your request, we have performed the procedures described below with respect to the accompanying letter from Mr. Neil E. Harlan, Chairman of the Board, Foremost-McKesson, Inc. to the Regional Administrator - Environmental Protection Agency, Region V dated July 5, 1982. It is understood that this report is solely for filing with the Environmental Protection Agency in accordance with requirements of the Resource Conservation and Recovery Act, and is not to be used for any other purpose. The procedures that we performed are summarized as follows:

> We recomputed from, or reconciled to, the consolidated financial statements referred to in the first paragraph the information included in items 7 and 11 under the caption Alternative II in the letter referred to above.

Because the procedures referred to in the preceding paragraph were not sufficient to constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on any of the information or amounts listed under the caption Alternative II in the aforementioned letter. In performing the procedures referred to above, however, no matters came to our attention that caused us to believe that the information or amounts included in items 7 and 11 should be adjusted.

Yours truly,

Deloitte Haskins + Sells

July 5, 1982

Foremost-McKesson, Inc.
One Post Street
San Francisco, CA 94104
(415) 983-8300

FOREMOST
McKESSON

Foremost-McKesson

Through computer technology and marketing, value-added distribution revolutionizes the way goods move to the consumer.

1982 Annual Report

To Our Shareholders and Employees: Despite the declining state of the economy throughout fiscal 1982, Foremost-McKesson achieved record results in the year ended March 31, marking the sixth consecutive year of new highs in revenues and earnings.

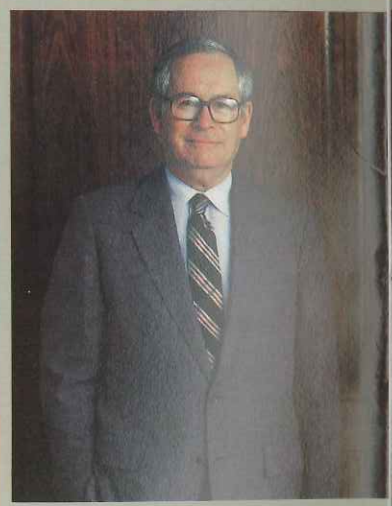
Revenues for the year rose 9% to $4,520,751,000, income from continuing operations increased 13% to $68,634,000 and fully diluted earnings per share from continuing operations were up 15% to $3.88. Net income, which includes income from discontinued operations, rose 6% to $73,537,000, while total per share earnings were up 8% to $4.14. Four of our five principal operating groups reported gains in both revenues and operating profit.

Our ability to achieve these gains under unfavorable general economic conditions and with a higher effective tax rate was due to a number of factors:

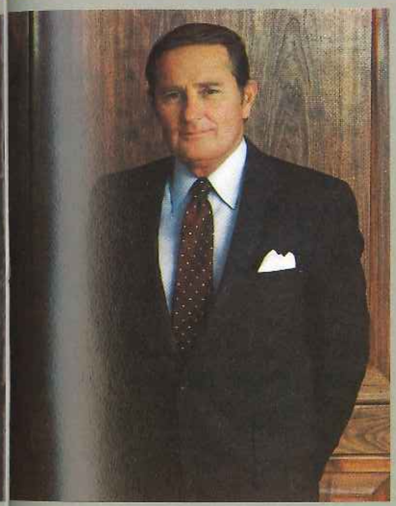
- ☐ aggressive marketing efforts by all of our operations.
- ☐ an exceptionally strong performance by our Drug & Health Care Group where revenues increased 13% and operating profit 23% and by our Wine & Spirits Group where revenues were up 5% and operating profit 22%.
- ☐ an increase in gross profit percentage from 16.3% to 16.6% contributed over $5 million to the bottom line. The Wine & Spirits Group was the principal contributor to this increase.
- ☐ tight financial controls. While revenues increased 9%, operating working capital (receivables and inventories less payables and drafts outstanding) actually declined 5%.

With the completion of our 1982 fiscal year, our five-year compound growth rate stands at 12% for revenues and 15% for earnings per share from continuing operations.

This enviable long-term record is based upon a number of factors. These include dedicated employees at every level of operations, the recession-resistant characteristics of some of our major businesses, our strong positions of market leadership and the diversity of our core businesses.



Neil E. Harlan
Chairman of the Board



Thomas E. Drohan, President
and Chief Executive Officer

After reviewing the results of fiscal 1982, the Board of Directors in May voted to increase the dividend, raising the annual rate to $2.40 from $2.24, a 7% increase. This marked the eighth time in the past seven years that the dividend has been raised. During this period dividends have been raised 160%.

Despite a difficult economic environment, we were able both to achieve these gains and to continue investing in current and new businesses, assuring the long-term growth of the company. Capital expenditures totaled $73.1 million, up 17% from $62.6 million in fiscal 1981, bringing the total over the past five years to more than $270 million.

Consistent with our strategy of focusing on those segments of our business that show the greatest promise of profit growth, investments are being directed to our distribution businesses and to selected proprietary products where we enjoy leading market positions. As part of this strategy, we have continued to eliminate marginal profit producers in the foods and wine and spirits areas; we have also decided to move ahead with the orderly divestiture of our homebuilding business. While these latter operations have been highly profitable and extremely well-managed by a competent group of professionals, homebuilding is outside the mainstream of our business as it has developed.

With the Chemical Group's acquisition of the Inland Chemical Corp., we have established a strong foothold in the chemical recycling industry, an activity that complements our position as the leading independent chemical wholesaler in the nation.

To strengthen our position as the largest and only national distributor of drugs and other mass merchandise items, we continue to broaden our product lines to include small household appliances and electronics. We are also offering a growing list of services to our retail customers and are aggressively expanding our support of the Valu-Rite voluntary drugstore chain.

In Wine & Spirits, we continue to strengthen our market position in the growth areas of the Sunbelt, and emphasis is being placed throughout the group on those product segments with strong growth prospects – wine, rum and imported beer.

Growth of our pasta and bottled water companies has enabled us to soften the impact of the cyclically troubled dairy business. Additional resources are being applied to the continued expansion of both our bottled water and our pasta lines.

To stimulate the identification, acquisition and growth of smaller businesses, we set up a new Development Group in fiscal 1982. The mission of this new unit is to nurture start-up situations and to investigate acquisition possibilities in smaller businesses that show potential for making significant contributions to profits in the longer time frame.

Finally, as part of a major program to improve productivity and continually upgrade the quality of our customer services, we are making major expenditures for the expansion of our advanced automated order-entry and other computer-based systems. (For details on our productivity programs, see page 14.)

As we move toward 1983 – the year that will mark the 150th anniversary of the founding of Foremost-McKesson – we believe the company has never been healthier, its employees more dedicated or its prospects brighter.

Neil E. Harlan
Chairman of the Board

Thomas E. Drohan
President and
Chief Executive Officer

June 8, 1982

Value-Added Distribution

Computer Technology and Marketing Revolutionize The Way Goods Move to the Consumer.

Wholesale distribution is in the midst of a quiet but dramatic revolution. The upheaval is altering the way goods move to the marketplace, the way Americans shop, how retailers manage their businesses and how manufacturers map their marketing strategies.

In the wake of this revolution, the role of the distributor–once characterized by forklifts and freight trucks used for shuttling goods from manufacturers to retailers–is undergoing a radical change.

Nowhere is this change more evident than at Foremost-McKesson, which, says *Business Week* magazine, is "redefining the function of the middleman [and] leading a revolution in the way U.S. wholesaling is practiced."

It is a revolution being staged simultaneously on two fronts: in the way Foremost-McKesson manages and controls its own businesses and in the ways the company is increasing services to its customers far beyond the simple logistics of buying a lot of boxes and selling them off one at a time.

Key Position in Channels of Distribution

To a degree unmatched in the distribution industry, Foremost-McKesson has adopted modern computer technology and marketing techniques. Propelled by the concept of adding value to services, Foremost-McKesson is moving full-force into marketing and gaining an increasingly key position in the channels of distribution. These value-added services include:

- ☐ comprehensive management reports that provide detailed analyses of product movement, enabling retailers to adjust their inventories, margins and pricing.
- ☐ service merchandising for retailers, providing a labor force to set up and maintain store shelves and displays and manage inventories.
- ☐ repackaging of bulk quantities of chemicals into smaller bags and drums.
- ☐ product marketing know-how for identifying new uses for chemicals.
- ☐ market audits to help alcoholic beverage suppliers expand their local market penetration.
- ☐ a voluntary association for independent pharmacies, offering the private-label pricing, advertising and identification advantages of chain stores.
- ☐ machine-vended purified drinking water as an alternative to conventional bottled water for supermarkets.

The company's position as the number one distributor of drugs and health care products, wines and spirits, chemicals and bottled drinking water makes it the largest wholesaler in the U.S. Every working day some 3,000 vehicles fan out across the country from about 200 Foremost-McKesson distribution centers. Each day they move some $15 million worth of merchandise, from table wine to toothpaste, chlorine to clock radios, drugs to disposable diapers.

There is hardly anyone in any of the 50 states who can go for very long without using a product that has been marketed by one of Foremost-McKesson's 2,200 salespeople, passed through one of its distribution centers or tracked by its nationwide computer network.

As both manufacturer and wholesaler, Foremost-McKesson understands the market forces all along the distribution channel. With the aid of advanced computer and materials-handling technology, the company is reducing total distribution costs and simultaneously offering valuable marketing services to both suppliers and retailers.

By transforming the traditional wholesale channel into a finely tuned marketing and information distribution network, Foremost-McKesson is helping its suppliers and customers make sense and profits out of an increasingly complex business environment.

Across the spectrum of Foremost-McKesson's businesses, sophisticated financial and business controls support the vast distribution network. Nowhere has their impact been more dramatic than in the use of working capital. "Ten years ago our average working capital as a ratio to monthly sales was 1.8. Today it is .8," says Neil E. Harlan, chairman of the board and chief financial officer. "That represents a reduction of approximately $300 million in working capital requirements from what they would have been had we continued at the ratios we experienced a decade ago."

Computer Spending Reaches $50 Million a Year

With the aid of technology, Foremost-McKesson is able to deliver more goods and services at lower cost. Foremost-McKesson's data processing resources now involve 450 people and an annual expenditure of $50 million. Unlike many U.S. companies, Foremost-McKesson's distribution business is one in which the promise of computers for increased productivity is being fulfilled every working day.

The explosion of new marketing services teamed with major productivity gains has catapulted Foremost-McKesson out of the chorus and onto center stage in American wholesaling at a time when the industry's importance is rapidly increasing. According to *Business Week*, in 1981 an estimated 59% of $2.1 trillion worth of all manufacturers' products were distributed by

Foremost-McKesson's hand-held Econscan order-entry device transmits shelf label information to the company's computers, speeding ordering and reducing costs for retail customers.

Across the entire spectrum of our distribution businesses, adding value has, in fact, become *the* motivating force at Foremost-McKesson.

wholesalers. Sales in wholesaling are expected to rise 13% per year through the mid-1980s, compared with an 11% per year increase in total shipments by manufacturers. An estimated six million people, or 5% of the total U.S. workforce, are employed in distribution businesses.

About 55% of Foremost-McKesson's profits comes from the value-added distribution side of the business. The other 45% is from proprietary products and services which consist of strong marketplace equities with well-recognized brand names and established market franchises. These include Sparkletts and other bottled water brands, Liquore Galliano, Folonari wines, Armor All appearance and protection products, Mueller's pasta, Foremost dairy products, the prescription claims services of Pharmaceutical Card System and McKesson Envirosystems recycled chemicals.

"Adding value for both manufacturers and our customers has, in fact, become *the* motivating force at Foremost-McKesson," says Thomas E. Drohan, president and chief executive officer. In so doing, Drohan says, "Foremost-McKesson earns a place on the marketing teams of its customers and suppliers."

The pivotal marketing contribution of the distributor has been most apparent in the wholesale drug business, which, according to *Fortune* magazine, "owes its current momentum to dramatic advances in electronic order processing that have brought efficiencies to pharmacists' handling of inventories." Computer systems have been critical to the sharply improved performance of the Drug & Health Care Group, Foremost-McKesson's largest business. The cornerstone of this group is the McKesson Drug Company.

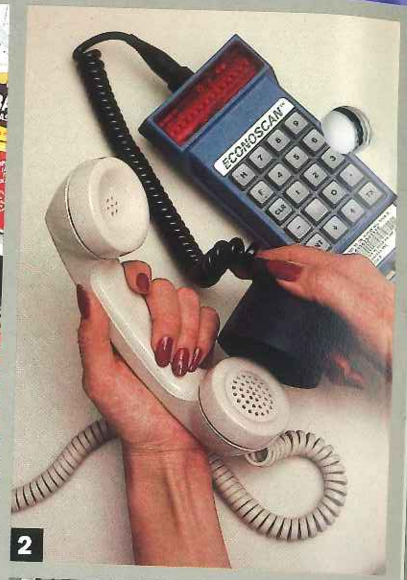
McKesson Drug distributes ethical drugs, proprietary over-the-counter products, cosmetics, perfumes, toiletries, sundries and a growing list of non-traditional product lines to retail drugstores, food stores, mass merchandisers and hospital pharmacies. Among its customers are some 14,000 retail stores and 2,000 hospitals in 35 states. Pharmaceuticals account for about 60% of sales, health and beauty aids almost 30% and sundries the balance.

McKesson Drug's sales are currently concentrated in those segments of the retail market that are growing most briskly: 35% to chain drugstores and mass merchandisers, 10% to hospitals and 55% to independent retail drugstores, primarily those with annual sales of $300,000 or more.

Most Customers Use Automated Systems

Eighty-five percent of McKesson Drug's retail drugstore and hospital customers now use one or more of its "Econo" series electronic order-entry programs, compared to 15% in 1975. About 95% of all drug order lines are now processed through these systems, compared to 30% five years ago. Economost, McKesson Drug's most comprehensive program, now used by about 7,500 accounts, helps McKesson Drug's customers eliminate ordering errors, reduce clerical costs, control inventory expenses and keep their shelves stocked with merchandise that moves. (See story at right.)

1



2

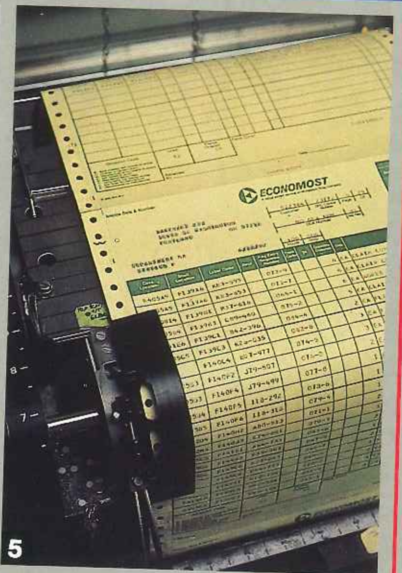

6


7


8


3


4



5


9

10

Economost Order Entry: Convenient and Cost-Effective

In Petaluma, California, storefronts first built on wagon-rutted avenues still reflect the town's rural beginnings. Through generations Tuttle Drugstore has prospered there, its wooden floors worn smooth by customers who keep coming back.

"This store has seen a lot of change," says co-owner and pharmacist Bill Burk. "If you don't change, you start going backwards. Time passes by the man who stands still."

Burk and his partners, Jim Bettinelli and Frank Hench, have profited tremendously by their decision seven years ago to join McKesson Drug Company's growing number of Economost clients and introduce computerization into their store.

"I was interested in Economost from the day I heard about it," says Bettinelli, who maintains the non-pharmacy aspects of the store. "I used to work at least an hour and a half ordering merchandise every other night. First I'd write everything down, then spend 15 to 20 minutes reading the order to an answering service over the phone. Now our store manager orders for the week in all but the pharmacy on Monday mornings–in just two hours."

To prepare Tuttle Drugstore for its computerized order-entry service, McKesson Drug helped the owners departmentalize their store into "profit centers" based on advanced merchandising methods. The company then supplied coded shelf labels for each item, and entered the Tuttle Drugstore account into its computer system at the Foremost-McKesson Data Center.

By using an Econoscan device to record information from shelf labels, ordering replacement merchandise at Tuttle Drugstore today is as easy as walking down the aisles (1). The order is then automatically transmitted at 600 items per minute over telephone lines (2) to the Data Center (3), where it is processed (4), transmitted to McKesson Drug's distribution center (5), filled overnight (6) and delivered to Tuttle the next morning (7).

"We can re-stock our shelves in half the time it used to take," says Burk. "Price labels are included with the order (8) and the products are organized by merchandise category (9). There's no more marking items with a grease pencil, and we don't have to remember to change prices either. The computer automatically adjusts the price by our percentage of profit if the wholesale price has changed."

Economost's scientific asset management program (10) also helps Tuttle's owners better understand the complexities of business in today's economy.

"We use our management reports to see how well our merchandise is moving and which items we should be marketing better," says Bettinelli. "The reports have improved our knowledge of the business and helped us control our inventory."

Bettinelli, Burk and Hench recently opened a second store in nearby Sebastopol. Economost has been a welcome addition to the management team from the start.

"When you're in business for yourself," says Burk, "you always have to be one step ahead of the competition. It's nice to remember where you've been, but it's more important to know where you're going next."

Advanced computer technology has transformed the drug distribution industry from a low-productivity, labor-intensive business into a high-productivity, technology-intensive business. Each working day, McKesson Drug processes almost $8 million worth of business comprised of 55,000 products from 2,500 manufacturers. While doubling its sales volume in the last five years, McKesson Drug has reduced the number of its distribution centers from 76 to 57 and doubled output per salesperson.

Computer Tie-ins with Manufacturers

During the same period, productivity in the office has been improved by 73% and in the warehouse by 31%. Direct computer tie-ins with 44 drug manufacturers–up from a single link in 1976–have enabled McKesson Drug to handle the increased volume with a sharply reduced staff of 13 buyers, down from 140 in 1976.

During the past few years, the drug wholesaler's share of the ethical drug market has risen from just under 45% in 1973 to 53% in 1979, the latest data available. Michael LeConey, a securities analyst at Merrill Lynch Pierce Fenner & Smith, Inc. in New York, attributes this shift to two factors. First, he says, the pharmaceutical industry continues to grow at a good rate. However, retail drugstores, because they are expanding the range of merchandise they offer, are growing even faster. "The outlook for new product flow from the drug industry is so favorable," he says, "that the industry's sales growth in the 1980s should be greater than it was in the past decade. Also, drugstores should continue to expand the breadth of merchandise they offer."

Wholesalers' Share of Market Rising

Equally important, says LeConey, is the wholesale drug industry's substantial increase in share of market to 58% of retail drugstore purchases in 1980 from 47% in 1975. "This has stimulated the industry's sales growth," adds LeConey, "and for industry leaders [including McKesson Drug], the results have been particularly impressive." McKesson Drug expects to increase its share of the remaining 42% of retail drugstore purchases by offering a wider assortment of merchandise. The company continually tests and implements new product categories, including proprietary product lines. (See story on page 8.)

This shift toward greater distribution via wholesalers is the single most significant factor in the retail drug industry in the past 50 years. "The cost of the drug wholesaling industry's product," says LeConey, "is declining while its value to customers is rising."

What's more, retailers are coming to recognize the need to make a major commitment to one wholesaler to gain the benefits of the full range of computer-based services. This trend toward the use of one wholesaler is expected to accelerate as McKesson Drug expands its computer services and increases the number of products it distributes. Thomas Kully, a securities analyst at the Chicago brokerage firm of William Blair & Co., considers McKesson Drug "the most innovative marketer in the industry." He adds, "If operating efficiency and order-entry hardware were the key industry developments in the 1975 to 1981 period, marketing additional products and services will be crucial in the 1982 to 1985 period."

1

2

3

4

Targeting Seasonal Sales
Every year, just before the explosion of spring pollens into the air, displays of hayfever capsules and allergy tablets appear like clockwork in retail drugstores across the country. As people wheeze and sneeze their way through a selection of remedies, retailers time their in-store merchandising to match consumer needs. Those retailers count on McKesson Drug Company to offer appropriate products geared to local market demands.

"We have a tremendous accumulation of computerized data that we use to track movement of every product by month and by geographic area," says George Momaney, vice president of sales merchandising for McKesson Drug. "Hayfever remedies are just one example. Based on sales histories, we are better able to help our manufacturers predict how well any given product will sell during an upcoming season in virtually any of our markets in the United States. This puts our merchandise managers in a good position to help suppliers develop and target the best promotional programs for their products."

These programs are evaluated by McKesson Drug's sales merchandising committee at monthly meetings held at corporate headquarters in San Francisco (1,2). Feedback given by the company's regional sales managers from Atlanta, Chicago and Walnut Creek, California, helps the committee select the promotions (3,4) that will be presented to over 14,000 retail stores nationwide by McKesson Drug's more than 400 sales representatives.

"Careful analysis and planning based on past promotional results suggests strategic placement of seasonal items," says Momaney, "such as fragrances and jewelry around Mothers' Day, suntan lotions and insect repellents in May and June, school supplies during the back-to-school season and cough and cold products in the fall."

The outlook for new drugs is so favorable, says one securities analyst, that growth of drug wholesalers in the '80s should accelerate.

McKesson Drug is expanding its line of proprietary products with the Valu-Rite line of health and beauty aids, the Hi Lights line of costume jewelry and the growing list of SunMark-brand home health care products and durable medical equipment.

The company is also marketing a broad range of retail services.

These McKesson Drug services include:

- ☐ Econoprice, a newly introduced program that provides retail pharmacies with continually updated retail price labels for various dispensed quantities of prescription items based on the retailer's pricing formula.
- ☐ Econocharge, a computerized accounts receivable program that enables pharmacists to offer their preferred customers the convenience of a store charge account.
- ☐ Econoclaim, a computerized service currently in test market that enables retail pharmacists to process more readily third-party claims for prescription drugs.
- ☐ Econoplan, a guide to the retailer on shelf space management.
- ☐ Econofiche, a microfiche service which provides updates on price and product information, drug interaction, Medicaid numbers, product warranties and more.

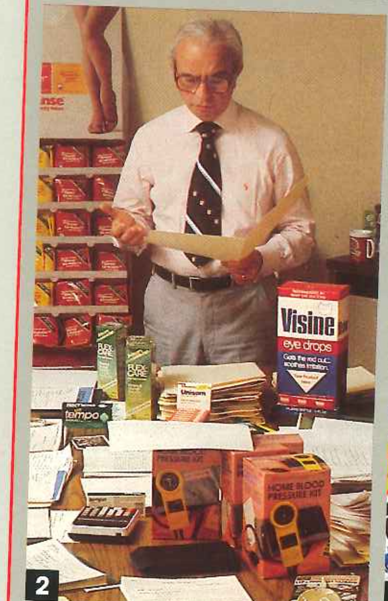
Valu-Rite Supports Independents

Through Valu-Rite, the largest voluntary association of drugstores, the Drug & Health Care Group is able to provide a range of special services to independent drugstores. Patterned after similar voluntary retail chains like True Value Hardware and Associated Grocers, Valu-Rite Pharmacies offers the independent the opportunity to buy and advertise like a chain while retaining the advantages of being an independent entrepreneur. Valu-Rite provides its 1,800 members the benefits of common market identity and the group advantages of advertising and purchasing.

The Drug & Health Care Group's Skaggs-Stone unit enables Foremost-McKesson to respond to growing consumer interest in one-stop shopping. Skaggs-Stone offers retailers in 13 western states more than 20,000 items, including housewares, hardware, toys, stationery and small appliances. The opportunities for synergy with McKesson Drug are significant since 75% of Skaggs-Stone's sales are to retail drugstores. Skaggs-Stone is currently implementing its own automated order-entry system.

In addition to its value-added wholesale services, Foremost-McKesson strengthens its link to drug retailers through Pharmaceutical Card System (PCS), the nation's largest prescription drug claims processing service. PCS, which speeds reimbursement to the pharmacist for medications covered as part of employee benefit plans, processes nearly two million prescription claims by computer each month. PCS membership permits cardholders to fill prescriptions at 45,000 participating pharmacies for $2 or less.

1



2

3

4

Targeting Seasonal Sales
Every year, just before the explosion of spring pollens into the air, displays of hayfever capsules and allergy tablets appear like clockwork in retail drugstores across the country. As people wheeze and sneeze their way through a selection of remedies, retailers time their in-store merchandising to match consumer needs. Those retailers count on McKesson Drug Company to offer appropriate products geared to local market demands.

"We have a tremendous accumulation of computerized data that we use to track movement of every product by month and by geographic area," says George Momaney, vice president of sales merchandising for McKesson Drug. "Hayfever remedies are just one example. Based on sales histories, we are better able to help our manufacturers predict how well any given product will sell during an upcoming season in virtually any of our markets in the United States. This puts our merchandise managers in a good position to help suppliers develop and target the best promotional programs for their products."

These programs are evaluated by McKesson Drug's sales merchandising committee at monthly meetings held at corporate headquarters in San Francisco (1,2). Feedback given by the company's regional sales managers from Atlanta, Chicago and Walnut Creek, California, helps the committee select the promotions (3,4) that will be presented to over 14,000 retail stores nationwide by McKesson Drug's more than 400 sales representatives.

"Careful analysis and planning based on past promotional results suggests strategic placement of seasonal items," says Momaney, "such as fragrances and jewelry around Mothers' Day, suntan lotions and insect repellents in May and June, school supplies during the back-to-school season and cough and cold products in the fall."

The outlook for new drugs is so favorable, says one securities analyst, that growth of drug wholesalers in the '80s should accelerate.

McKesson Drug is expanding its line of proprietary products with the Valu-Rite line of health and beauty aids, the Hi Lights line of costume jewelry and the growing list of SunMark-brand home health care products and durable medical equipment.

The company is also marketing a broad range of retail services.

These McKesson Drug services include:

☐ Econoprice, a newly introduced program that provides retail pharmacies with continually updated retail price labels for various dispensed quantities of prescription items based on the retailer's pricing formula.
☐ Econocharge, a computerized accounts receivable program that enables pharmacists to offer their preferred customers the convenience of a store charge account.
☐ Econoclaim, a computerized service currently in test market that enables retail pharmacists to process more readily third-party claims for prescription drugs.
☐ Econoplan, a guide to the retailer on shelf space management.
☐ Econofiche, a microfiche service which provides updates on price and product information, drug interaction, Medicaid numbers, product warranties and more.

Valu-Rite Supports Independents

Through Valu-Rite, the largest voluntary association of drugstores, the Drug & Health Care Group is able to provide a range of special services to independent drugstores. Patterned after similar voluntary retail chains like True Value Hardware and Associated Grocers, Valu-Rite Pharmacies offers the independent the opportunity to buy and advertise like a chain while retaining the advantages of being an independent entrepreneur. Valu-Rite provides its 1,800 members the benefits of common market identity and the group advantages of advertising and purchasing.

The Drug & Health Care Group's Skaggs-Stone unit enables Foremost-McKesson to respond to growing consumer interest in one-stop shopping. Skaggs-Stone offers retailers in 13 western states more than 20,000 items, including housewares, hardware, toys, stationery and small appliances. The opportunities for synergy with McKesson Drug are significant since 75% of Skaggs-Stone's sales are to retail drugstores. Skaggs-Stone is currently implementing its own automated order-entry system.

In addition to its value-added wholesale services, Foremost-McKesson strengthens its link to drug retailers through Pharmaceutical Card System (PCS), the nation's largest prescription drug claims processing service. PCS, which speeds reimbursement to the pharmacist for medications covered as part of employee benefit plans, processes nearly two million prescription claims by computer each month. PCS membership permits card-holders to fill prescriptions at 45,000 participating pharmacies for $2 or less.

McKesson Envirosystems solves chemical disposal problems and reduces costs for many Chemical Group customers by recovering their spent solvents and marketing the recycled products. A technician compares the recycled end product with unrefined spent solvent.

Through sophisticated safety programs, technical seminars, new computer services and recycling capabilities, the Chemical Group is adding value to chemical distribution.

Foremost-McKesson's other distribution businesses, notably chemical and wine and spirits, are emulating the enormous strides in productivity and value-added distribution made by the Drug & Health Care Group. To streamline ordering, delivery and invoice procedures and enhance marketing data, McKesson Chemical plans to put automated order systems in all 70 of its branches during the next 18 months. The system, in design and development for more than two years, will centralize inventory analysis of the group's 1,200 commodity and specialty chemicals. This centralization will help coordinate the facilities and broaden inventory control from a branch to a regional basis.

McKesson Chemical Expands Markets

Development of such advanced systems is changing the image of chemical distributors from "the order takers of former times to sophisticated business operators," according to *Chemical Week* magazine. McKesson Chemical, the nation's largest and most complete chemical distribution business in all areas including product management and safety, enjoys a marketing relationship with approximately 200 chemical manufacturers. For those suppliers and their products, McKesson Chemical identifies new and expanded markets and applications.

McKesson Chemical's product line is both organic and inorganic, liquid and dry, contained in drums, tanks, bags and cylinders. To add value to chemicals manufactured by many producers, McKesson Chemical drums, bags, blends and recycles those products and frequently creates a proprietary brand by distributing certain items under the McKesson Chemical label. In a field and era made complex by environmental concerns and regulations, the Chemical Group also adds value by conducting technical seminars and supplying product literature on the safe storage and use of hazardous materials.

The total U.S. market for chemicals sold by distributors in the product categories served by McKesson Chemical was $13.6 billion in 1980, the latest data available. The market share captured by chemical distributors has increased steadily from 18.7% in 1976 to 20.3% in 1980.

The six national chemical distributors, of which McKesson Chemical is the leader, have an 18% share of the total wholesale chemical market. Among these six national distributors, McKesson Chemical currently holds a 23% market share. Chemical manufacturers continue to ship the major portion of orders directly to end users, mostly in carload quantities. Meanwhile, they depend on and encourage distributors such as McKesson Chemical to handle the less-than-carload market and to provide field sales and support to these smaller accounts. As a result, chemical distributors are capturing a greater portion of the market both in absolute tonnage and in market share.

During the last five years, McKesson Chemical has strengthened its materials-handling and strategic marketing capabilities. It has invested in new and upgraded facilities and rolling stock, as well as safety programs and self-audits. Its management team has been strengthened by an operations and marketing training program. A national accounts program, started four years ago, provides centralized billing for multi-plant operations, although deliveries may come from several locations.

In its marketing relationship with major chemical manufacturers, McKesson Chemical researches new product applications. For example, McKesson Chemical identified for a manufacturer a use for the preservative potassium sorbate to improve the shelf life of cosmetics. Sorbate sales climbed substantially.

Environmental management and chemical recovery are important new services designed to help alleviate some of the most vexing problems faced by Chemical Group customers and suppliers. In 1981, Foremost-McKesson announced plans to build or acquire at least six solvent recycling plants in key market areas.

The recent acquisition of Inland Chemical gave the Chemical Group a three-year jump on its plans to become a national recycler. McKesson Envirosystems, formed in May 1981, and McKesson Chemical now work in tandem to locate waste streams and to market refined solvents.

Recycling Expected to Grow at 25% a Year

The chemical solvent recovery business is projected to grow at 25% per year in the U.S. for the next five years. The Chemical Group's objective is to capture at least 10% of this national market, catapulting McKesson Envirosystems into a $100 million company within five years.

The distribution of wine and spirits is set apart from Foremost-McKesson's other distribution businesses by the tightly regulated environment in which it operates. The federal and state laws that govern this industry are extremely complex. Since the passage of the Twenty-First Amendment, a three-tier system has been established in most states. These laws vary from state to state but essentially create the same effect. The manufacturer or importer, the wholesaler and the retailer are licensed as separate and distinct entities. Generally, no one licensed as either a manufacturer or wholesaler may have an interest in a retail license. In some states, restrictions are placed upon those distillers having wholesale licenses.

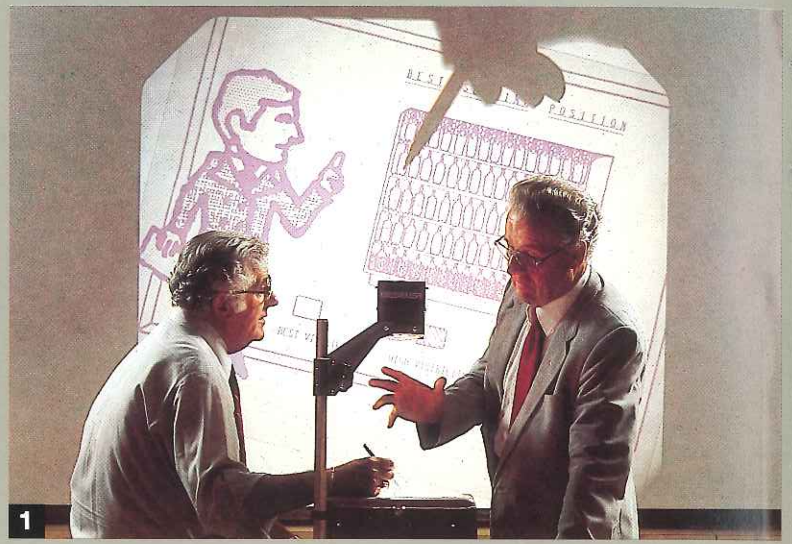
The Foremost-McKesson Wine & Spirits Group is a one-of-a-kind company within the alcoholic beverage industry. The six units of the group are engaged in two separate and distinct businesses: production, importation and marketing of alcoholic beverages, and the wholesale distribution of alcoholic beverages in 15 states, primarily in the fast-growing Sunbelt. Each unit conducts business in a specialized segment of the industry.

As exclusive or semi-exclusive distributors, the group's wholesale arm, McKesson Wine & Spirits Co., performs key value-added services in addition to warehousing and delivery. (See story at left.)

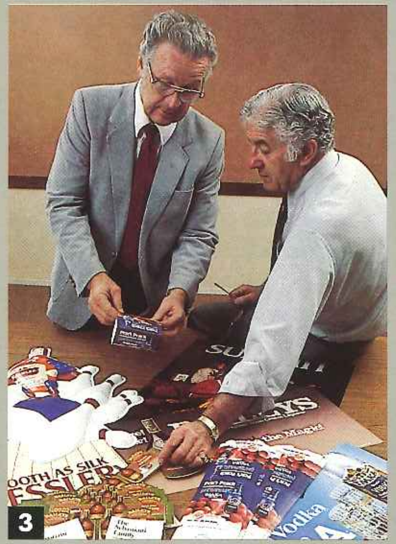
McKesson Wine & Spirits: Suppliers' Sales Force

For example, McKesson Wine & Spirits works to obtain full distribution of each supplier's product in every retail account and maintains up-to-date records of distribution and sales. As part of its responsibility to merchandise its suppliers' brands, the company encourages retailers to place the suppliers' point-of-sale displays in their stores. In some markets, the displays are installed by McKesson Wine & Spirits salespeople. In effect, McKesson Wine & Spirits functions as the suppliers' selling force.

A new value-added marketing system introduced two years ago provides McKesson Wine & Spirits with more information about the status of each product in the marketplace, making it possible to provide critical services for both suppliers and retail customers. The company has also expanded its merchandising program of in-store displays and wine tastings. In some markets, McKesson Wine & Spirits develops wine lists for restaurants.


1


2


3


4

5

Keeping Wine and Spirits Products in the Spotlight

A manufacturer may spend millions of dollars in advertising to capture consumer interest. But if the product isn't available when the consumer decides to buy it, both advertising dollars and potential customers are lost.

In the wine and spirits industry, it is the job of McKesson Wine & Spirits Co. to place its suppliers' products on every shelf, in every size available, in every bar and package store in the markets it covers.

"The name of the game is value-added distribution," says Jim Gillis, executive vice president of McKesson Wine & Spirits Co. "We've combined the most advanced marketing techniques from each of our distribution houses and put them to work nationwide."

In each of its 39 distribution areas, McKesson Wine & Spirits conducts an annual market audit to identify the strengths and weaknesses in product availability. McKesson Wine & Spirits' operation in Las Vegas, Nevada, for example, turned up some significant data about regional distribution patterns (1).

"The audit told us a lot about our business and that of our suppliers," says Sam Costanza, vice president and general manager in Las Vegas. "Here in southern Nevada we uncovered opportunities we had overlooked for years while pursuing the big hotel casino accounts.

"The population in Las Vegas is highly transient," he says. "Because of the economy of the town, it seemed unlikely that a big off-premises liquor business would ever develop. Our audit showed us how people's habits are changing–they're spending more time entertaining at home. This means more business for us and for our suppliers."

The four-county market audit was only the beginning of a completely revitalized sales promotion program in Las Vegas. Additional market research showed low levels of chilled products in refrigerated cases. In a territory where summertime temperatures soar as high as 118 degrees, retailers' refrigerators (2) were a logical first target for Costanza's sales force.

"In Nevada," he says, "suppliers are restricted by law from merchandising their products in the store. So, our salespeople play a major role in promoting their brands at the retail level (3) by arranging for maximum shelf presence in a prominent position (4), and assisting with special displays (5).

"Better understanding of our market has opened up new avenues of doing business," says Costanza. "It was an important step in the value-added distribution program."

McKesson Wine & Spirits' sales staff works to achieve maximum distribution and visibility of each supplier's products and offers in-store display assistance to retailers.

McKesson Wine & Spirits works as an aggressive marketing force to move suppliers' products off the shelves.

Automated warehousing and materials-handling systems have boosted McKesson Wine & Spirits' productivity dramatically.

An advanced management information and order-entry system, currently installed in one-fourth of McKesson Wine & Spirits' wholesale houses, processes orders and provides data for inventory control and marketing reports.

Foremost-McKesson's unique presence in the wine and spirits business has enabled the company to respond to changing needs in the retail marketplace. The Wine & Spirits Group has moved to offer consumer-sensitive programs and plans that deliver a marketing edge. As an example, in response to growing consumer taste for white table wines and imported beers, the group took on two relatively unknown labels–Folonari wine and St. Pauli Girl German beer–and achieved broad national distribution.

To successfully market St. Pauli Girl beer, the group's Carlton Importing Company was restructured two years ago to become a beer-only marketing company. This was in recognition of the fact that more than 90% of beer sold in the U.S. is handled by beer-only distributors. Carlton has created a strong distribution network for St. Pauli Girl. As a result, St. Pauli Girl currently ranks number three among European imports and within the top ten imports overall. With a strong marketing company and distribution network in place, Carlton recently added San Miguel beer from the Philippines to its product line.

Folonari wines, marketed by "21" Brands, have enjoyed similar success. They are now the fourth largest selling Italian wines in the U.S.

Mosswood Wine Company, formed in 1977 to seek out, import and market chateau and estate-quality wines produced by small wineries in Europe and the U.S., supplies McKesson Wine & Spirits wholesale houses with wines not available to them from other suppliers. Mosswood also teaches McKesson Wine & Spirits sales representatives the techniques of selling fine wines.

Today, as marketing experts, distributors and importers, the Wine & Spirits Group delivers services which encompass nearly every stage of the process except fermenting the grain, crushing the grapes and brewing the barley malt.

Demand for Bottled Water Soars

Like the Wine & Spirits Group, Foremost-McKesson's bottled water business combines processing, marketing and distribution. As a growing segment of the American public has grown wary of the sometimes questionable quality and poor taste of tap water, the demand for pure, fresh drinking water has soared. An aggressive marketing program that focuses on the health and taste benefits of bottled water has helped the Foremost-McKesson Water Division boost sales in the western and Sunbelt states. The division has combined its water purification technology with creative marketing approaches to expand placements of Aqua-Vend purified drinking water dispensing machines, ensuring it an increasing share of the $350 million-a-year purified drinking water business.

Looking beyond the boundaries of Foremost-McKesson's current businesses, a number of intriguing trends in the retail environment emerge which will have tremendous impact on the wholesale distributor's scope during the 1980s.

Looming largest is one-stop shopping and the "omni-store." The traditional lines of demarcation between the food, drug, wine and spirits and general merchandise stores are blurring. Food stores are putting in pharmacies, drugstores are opening auto supply departments and department stores are adding fast-food shops. The lines of delineation are growing fainter, as the retail outlet grows larger and more universal.

Foremost-McKesson is already on the frontier, pioneering service to the omni-store in a number of ways. McKesson Drug is designing and installing pharmacies in many supermarkets and is expanding its product and service lines. The Foods and Wine & Spirits groups are also conducting substantial business with omni-stores. Foremost-McKesson's systems offer substantial potential to serve the store or the buying environment of the future. For example, hooking in Foremost-McKesson's order-entry systems to point-of-sale devices could assure greater efficiencies to both wholesalers and retailers.

Teleshopping to Have Widespread Impact

The second development which is expected to have an impact on the future of retailing–hence, wholesaling–is teleshopping. Using home computers or television sets adapted for two-way communication linked by telephone to a large central computer, consumers review, select and order merchandise within their own homes or in retail stores. The computer automatically checks their credit and the availability of the item and details delivery arrangements.

Despite its futuristic characteristics, teleshopping is already available in limited market areas, including San Diego, California, where Foremost-McKesson is a participant in an experimental program.

Another series of developments influencing the retail environment stems from some important new demographic and technological factors: dual-career families, single-parent households, fewer formal meals, smaller families, eating out, the spiraling cost of real estate and energy, the dollar value of time and the cashless society.

Summing up, Foremost-McKesson President Tom Drohan says, "The ultimate inevitability is that Foremost-McKesson will continue to change. That change will accelerate, and it will be driven largely by new technology and the impact of new consumer demands on the manufacturing and retail environment. With a commitment to innovation and intelligent risk taking, we intend to maintain our position as leaders of the distribution revolution. If it is true, as one observer of the contemporary scene claims, that 'Life is what happens to you while you're making other plans,' the only constant we will really need is flexibility. We think we have that flexibility. We think we can continue to provide the kind of value-added services that give our customers, our suppliers and our own businesses the marketing edge we need for success." □

Managing Resources for Improved Productivity

Heat exchangers at Foremost-Gentry in Gilroy, California, left, reduce energy costs in the plant's vegetable dehydrating operations. Streamlined conveyor systems, right, improve productivity at the Miami Crown/Palm Beach Crown wine and spirits warehouses.

At Foremost-McKesson, energy management encompasses far more than programs to reduce fuel consumption and conserve natural resources. We also continue to examine with equal concern the processes through which human energies are expended in our ongoing efforts to find more productive ways of doing business.

While some may view energy conservation and improved productivity as unrelated issues, at Foremost-McKesson we find that it makes good sense to look at them as parallel channels to a single major goal: increased efficiency and cost-effectiveness.

Our approach to both kinds of energy management is both coordinated and decentralized. We believe that each of our businesses knows best where to examine its own operations for potential areas of improvement. We have, however, made sure that good ideas are shared among our business segments by establishing inter-group councils to develop solutions and strategies on the energy and productivity fronts.

In 1973 we formed an inter-group energy council to attack the problems of shrinking resources and skyrocketing energy costs. We began with simple steps. We adjusted thermostats, insulated steam pipes and reduced the intensity of indoor and outdoor lighting. Within two years, these and other basic changes had cut our gross energy costs by 10%.

In 1976 we shifted our emphasis to more innovative energy projects and made major investments to gain additional savings in every operating group. A $2 million capital investment fund established in 1979 helped finance the installation of heat exchangers and boiler economizers. Other investments included ceiling fans for warehouses, standby generators, wind deflectors for over-the-road trailers, solar water heaters for bottle washers, microwave ovens for drying pasta and a mechanical vapor recompression evaporator to recycle heated air at a dairy plant.

With these and other improvements, such as buying more fuel-efficient passenger cars and adding more insulation to many of our facilities, by fiscal 1982 we realized an additional 34% drop in energy usage on an output-adjusted basis.

Last year, we allocated another $3 million to fund additional energy-saving measures. We acquired the world's only geothermal vegetable dehydrating plant, which will operate virtually free of energy costs. Major energy projects now on the drawing board include a water wheel-powered whey plant and a biomass digester to produce methane from cheese by-products. Today, with fuel costs running $46 million in the year just ended, we have achieved savings of $8 million as the direct result of energy programs throughout Foremost-McKesson.

With the same vigor we have applied to the conservation of energy, we are working in all of our businesses toward the most productive use of our human resources.

In fiscal 1982 we formed a corporate productivity council at which representatives from each of our businesses meet to exchange practical ideas. Through independent programs initiated in each operating group–many with the aid of computer technology–we have achieved gains in productivity that have far exceeded U.S. industry's overall 1.5% productivity increase in 1981.

In our Drug & Health Care Group, for example, transportation planners for McKesson Drug have put a new computerized transportation analysis system to work. An annual cost savings of more than $500,000 is expected to result from the program.

Not all of Foremost-McKesson's productivity programs depend on computers. The Drug & Health Care Group's fiscal 1982 "Productivity Bowl" actively involves employees in planning and implementing changes in plant equipment, layout and procedures. Throughout McKesson Drug's nationwide network of distribution centers, warehouse productivity increased 8% and office productivity went up 13%.

The Wine & Spirits Group focused its productivity efforts on the conservation of human energy through the streamlining of warehouse operations. At our Miami Crown/Palm Beach Crown distribution houses in Florida, local managers and corporate engineers determined that a simplified order-filling process would eliminate unnecessary walking and carrying of heavy cases of merchandise. The conservation of human energy resulted in a productivity increase from 32 to nearly 50 cases moved per man-hour in less than two years.

The Foods Group's Grocery Products Division made a number of improvements at C. F. Mueller Co., where a short-interval scheduling system helped save $1.3 million in 15 months. The system divides specific operating procedures into the shortest possible time segments, and includes a built-in productivity measurement to pinpoint problem areas. Improved packaging resulted in a savings of more than $700,000, and the consolidation of marketing activities saved another $500,000.

We at Foremost-McKesson recognize that productivity and energy conservation will continue to be critical issues for American business throughout the foreseeable future. Rising productivity, in particular, will be the key to American industry's competitiveness in markets at home and abroad. While government must play a role in meeting energy and productivity challenges–through intelligent taxation, sound fiscal policy and long-term energy strategies–many steps that can and must be taken are within the power of individual companies and their employees. At Foremost-McKesson, we will continue to examine our own businesses to maximize all our resources. □

Taking the Initiative in Community Action

A San Francisco children's art workshop, left, is just one of the many community projects that receive financial support from Foremost-McKesson. At right is Penny Stearns, an active employee volunteer, at a San Francisco home for the aged and chronically ill.

Never before has the voice of community concern been raised with such intensity. In the past year, requests for financial and volunteer assistance from Foremost-McKesson more than doubled as local, state and federal governments sought to shift social responsibility to the private sector.

We at Foremost-McKesson recognize that the private sector–including schools, churches, civic groups, unions and foundations, as well as corporations–must intensify its efforts in the social arena. We support recommendations made by the President's Task Force on Private Sector Initiatives established to align the private sector with government in serving the needs of American communities.

The President's Task Force calls for corporate action on four fronts:

- □ an increase in cash contributions to at least 2% of pretax profits within four years.
- □ a doubling of community service involvement within four years.
- □ a reassessment of the direction of corporate philanthropy programs.
- □ a commitment to an active partnership with American communities.

Foremost-McKesson is well on its way to meeting these challenging goals. In fiscal 1982, we contributed 1.45% of our prior year's pretax profits, or more than $1.5 million, in grants to public service organizations–up from 1% or $1.2 million the previous year. We plan to raise our total contributions to approximately 1.7% of pretax profits in fiscal 1983, and to reach the recommended goal of 2% in two, not four, years.

As a founding member of the San Francisco Bay Area Corporate Two Percent Club, Foremost-McKesson shares the philosophy that the only way to build a strong business is to build a strong community. By investing 2% of corporate pretax dollars in community service, we hope to stimulate other companies to do the same.

The Foremost-McKesson Foundation is our principal philanthropic entity. In fiscal 1982, Foundation contributions reached $645,000–more than twice the amount given three years ago. Direct contributions of funds and merchandise from the corporation totalled $400,000, and our operating groups collectively added more than $500,000 to the community relations program.

Last year, some 70% of Foundation dollars supported programs in special education, criminal justice, minority and disabled assistance, physical and mental health and nutrition awareness. We also backed senior citizens projects, shelters for battered women, job training, youth development and myriad other social programs. Support for cultural development–museums, ballet, opera, art and the sciences–accounted for 14%. Twelve percent was designated for civic and neighborhood improvement, and 5% supplemented international and employee involvement programs.

Increased volunteerism, the President's Task Force's second recommendation, calls for corporations to double their level of community involvement within four years. We established our volunteer network in the late 1960s, and in 1979 added full-time corporate staff to manage and direct expanding community outreach programs. In the San Francisco area, employees have been mobilized into the Foremost-McKesson Community Action Team. The program will soon be duplicated in eight other cities.

In their continuing projects throughout the year, our employees donated blood, shared job-related skills with student interns, adopted a wing of residents at a facility for the aged and chronically ill, collected food and medical supplies for victims of a hotel fire, tutored children, coached the mentally retarded in the Bay Area Special Olympics, manned phone banks at the Easter Seal Telethon, took to the streets in the March of Dimes Superwalk, painted a San Francisco boys' home and supported a receiving center for families of prisoners. Under our newest program, we are the first San Francisco corporation to "adopt" a school.

In the first year of Foremost-McKesson's Board Candidate Program, 35 management employees volunteered their time and business expertise to serve on boards of directors of nonprofit organizations in the Bay Area. From childcare centers to symphonies, Foremost-McKesson employees are working at board level to help organizations manage their resources.

The Foremost-McKesson Community Action Fund was established last year to encourage employees to apply for grants for eligible nonprofit organizations in which they are actively involved. During fiscal year 1982, 13 grants totalling nearly $7,000 were awarded to a wide range of employee interests.

Employees participate in the political process through a nonpartisan federal level Political Action Committee. In calendar 1981, they raised over $10,000 for the Foremost-McKesson Employees Political Fund by soliciting voluntary, confidential contributions from eligible employees. Their goal for 1982 is to raise $20,000 to support some 60 federal candidates at the primary and general election levels. Copies of the fund's report are available through the Public Affairs Department.

For more information on the company's public policy projects or for a copy of the annual report of the Foremost-McKesson Foundation, write to Marcia M. Argyris, president, Foremost-McKesson Foundation, One Post Street, San Francisco, CA 94104, or call (415) 983-8673. □

Drug & Health Care Group: With revenues up 13% to $1.9 billion and operating profit up 23% to $48.2 million, the group set new highs for the fifth straight year. Expanded automated order-entry and merchandise service programs, new product lines and the growing Valu-Rite voluntary association of independent drugstores help meet the increasingly diverse needs of retailers and expand the group's base of customers.

(dollars in thousands) Years ended March 31	1982	1981	1980*	1979	1978
Revenues	**$1,903,661**	$1,677,313	$1,428,660	$1,264,466	$1,110,208
Percent increase	**13.5%**	17.4%	13.0%	13.9%	17.6%
Operating profit	**48,207**	39,234	31,258	31,824	22,637
Percent increase	**22.9%**	25.5%	(1.8)%	40.6%	45.6%
Average capital employed	**211,518**	195,727	176,409	163,511	150,421
Return	**22.8%**	20.0%	17.7%	19.5%	15.0%

*The last-in, first-out method of valuing inventories was extended to substantially all of the group's inventories in 1980.

For the fifth consecutive year, the Foremost-McKesson Drug & Health Care Group set new records. The group reported a 13% increase in revenues to $1,903,661,000 for the year and a 23% increase in operating profit to $48,207,000. The results were due to the extremely strong performance of the McKesson Drug Company.

The Drug & Health Care Group serves the $30 billion retail drugstore market, as well as hospitals, food stores and mass merchandisers, with a wide range of products and services provided by three operating units:

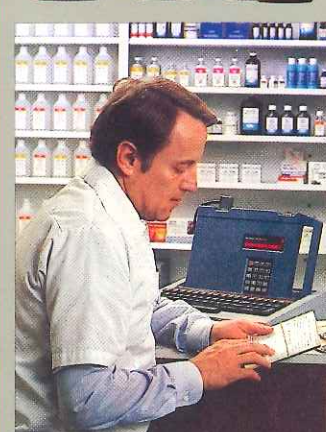
McKesson Drug Company, the largest and only nationwide distributor of pharmaceuticals, health and beauty aids and sundries.

Valu-Rite, the nation's largest voluntary chain of independent drugstores.

Skaggs-Stone, a general merchandise wholesale distributor serving 15 western states.

McKesson Drug experienced a highly successful year, resulting in large part from the broadening of its computerized order-entry services and the line of products it distributes. Eighty-five percent of McKesson Drug's 14,000 retail customers use at least one of its automated order-entry systems for effective shelf management, reduced investments in inventory and computerized management information, all of which helped to increase profits. The number of retail drugstores using Economost, McKesson Drug's most complete order-entry service, expanded to 7,500, an increase of 900 customers during fiscal 1982. Other order-entry customers use Econotone, a system which allows them to transmit orders directly to a Foremost-McKesson computer center via a Touch Tone® telephone. In 1982, 95% of McKesson Drug's order lines were received through its computerized order-entry systems, and further increases in the use of automated order entry are expected in fiscal 1983.

McKesson Drug has augmented these successful systems with a range of other value-



With proprietary products and computerized retail services such as Econoclaim (bottom), the Drug Group adds value to wholesale distribution.

added services designed to provide retailers with greater control over inventory and profit management. Econofiche, a microfiche information system, provides retailers with twice-monthly updates on price and product information as well as special files on drug interactions, Medicaid numbers, product warranties, home health care and third-party reimbursement plans. Econocharge, a computerized accounts receivable program, enables retailers to offer store charge accounts to their preferred customers. Customer transaction data is entered into McKesson Drug's computers, and both retailers and their customers receive monthly statements.

CosMcK, a merchandising program for retailers, provides a service to stock, price-label, rotate and display merchandise. More than 200 CosMcK merchandisers maintain 20 different retail store departments, up from 16 in fiscal 1981. CosMcK categories range from hair care to school supplies to pet care products. Merchandise is stocked and displayed according to computerized marketing information. The service is now available to retailers in 30 of McKesson Drug's 57 distribution centers, up from 15 in fiscal 1981 when the service was first expanded beyond test markets.

McKesson Drug's newest value-added services are Econoplan, Econoprice and Econoclaim. Econoplan guides the retailer on proper item placement and shelf allocation for each major section of the store. Every month the retailer receives a full-color photograph, or Planogram, of the way merchandise should appear on the shelf in a particular store section to optimize merchandise movement. Econoprice is a unique service which provides individual pharmacists with continually updated retail prices for various dispensed quantities of prescription medications. Pricing formulas are specified individually by each pharmacist.

Econoclaim is a low-cost, computerized method for pharmacies to control and submit claims for prescriptions which require reimbursement from a third party. As pharmacists enter prescription information, Econoclaim edits, audits and then transmits the data to a central computer. There, portions of the claims are completed automatically and a computer tape is prepared and forwarded to a state or insurance carrier for reimbursement. Econoclaim dramatically reduces users' claim rejection rates and speeds turnaround for improved cash flow. In addition, the Econoclaim terminal can do double duty as a portable order-entry device for either key entry or scanning. The service is now being tested in Michigan and Texas.

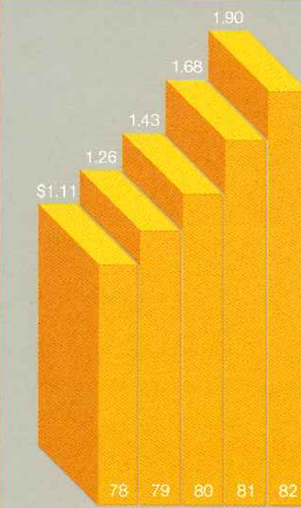
These value-added distribution services have enabled McKesson Drug customers to make significant gains in their own productivity and profitability. At the same time, data processing systems have contributed significantly to increased efficiency in purchasing and inventory management of the 55,000 different items distributed by McKesson Drug. In 1982 productivity increased 13% in McKesson Drug's offices and 8% in its warehouses due to computer-based efficiencies and productivity awareness programs.

In fiscal 1982 McKesson Drug continued its program to operate fewer but larger distribution centers, consolidating three additional units into modern, new facilities. The division now operates 57 distribution centers, down from 92 in 1974. Building and modernization programs will continue, and during fiscal 1983 more than $17 million in additional expenditures are planned.

With the blurring of traditional lines between food stores and drugstores, McKesson Drug has substantially broadened its customer base. In fiscal 1982, sales of pharmaceuticals, health and beauty aids and sundries to mass merchandisers and supermarkets continued to be the fastest growing segment of McKesson Drug's business.

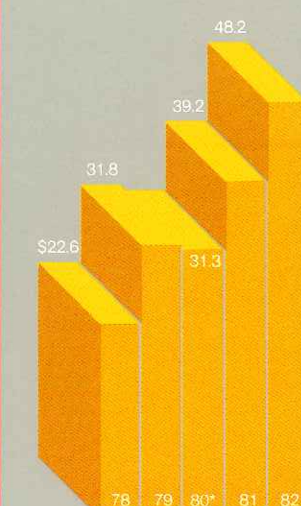
To cater to the increasingly diverse merchandise requirements of retail drugstores, McKesson Drug continued to move into market segments outside product lines it has traditionally supplied. Hi Lights, a proprietary line of costume jewelry distributed nationwide, increased its sales in 1982 with fast-changing styles that keep abreast of fashion trends. McKesson Drug also expanded its market penetration of fragrances with the acquisition of Atlanta-based Melrose Distributors, Inc., and added stationery, school supplies and pet care products to its product line.

To complement the SunMark line of home convalescent aids, McKesson Drug is offering a dealer assistance plan to help new and existing retail customers in the rapidly expanding rental market for durable medical equipment. The plan includes dealer training, processing of Medicare claims and immediate availability of home-use medical equipment, including oxygen and other supplies for

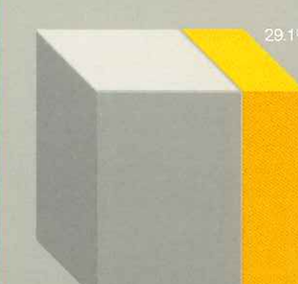


Revenues (in billions)

Revenues



Operating Profit
(in millions)
*After extension of LIFO



Operating Profit

respiratory problems. By the end of fiscal 1983 this service will be available in two thirds of McKesson Drug's zones. In fiscal 1982, sales of SunMark products increased nearly 18%.

Foremost-McKesson's commitment to helping maintain the vitality of independent and small chain drugstores is reflected in the continuing expansion of Valu-Rite, the nation's largest voluntary drugstore chain. Patterned after successful voluntary chains in the food and hardware industries, Valu-Rite offers members national and local television and radio advertising programs highlighting neighborhood stores; purchasing opportunities for private-label products, gift items, photo finishing and other products and services; promotional flyers, advertising sales and special purchases; and management programs and services such as group insurance and auto leasing. The association of Valu-Rite retailers is McKesson Drug's largest customer.

In fiscal 1982 Valu-Rite memberships increased to 1,800 stores from 1,400 last year and fewer than 300 five years ago. Although sales of Valu-Rite promotional merchandise declined in fiscal 1982 due to economic conditions, operating results improved as the result of internal efficiencies. Having established the strength of the Valu-Rite name through national television advertising, Valu-Rite shifted the focus of its advertising program in 1982 to support individual members through local television, radio and print advertising.

The third distributing unit of the Drug & Health Care Group is Skaggs-Stone, a major general merchandise wholesale distributor serving large retail establishments in the western United States. Skaggs-Stone's product line of more than 20,000 items includes housewares, hardware, toys, stationery, small appliances and towels and linens.

In a major move to strengthen its competitive position, Skaggs-Stone relocated its distribution center in 1981 from Oakland, California, to a modern, more efficient facility in Sparks, Nevada. In fiscal 1982, sales volume and operations continued to be adversely affected by the relocation. However, Skaggs-Stone is now well-positioned to take advantage of growth trends in its markets, particularly as drugstores and food stores continue to broaden their lines of general merchandise. In April 1982, Skaggs-Stone expanded its small appliance and consumer electronic offerings with the purchase of the western region inventories of a major small electric appliance distributor.

In fiscal 1983 the Foremost-McKesson Drug & Health Care Group plans to continue its expansion of computer-oriented services and the transfer of technology among its various units. A program has been completed to offer Skaggs-Stone customers an electronic order-entry system, and computers have been installed in all Valu-Rite locations for electronic order entry, inventory control and improved financial reporting.

Foods Group: Affected by competitive dairy markets and expenses for expanding water vending operations, operating profit fell 2% to $44.4 million while revenues rose 4% to $1 billion. In order to offset the cyclicality of dairy operations, the group's long-term strategy is designed to focus consumer attention on the quality and taste of bottled water and on pasta as a nutritional and low-cost source of carbohydrates and energy.

(dollars in thousands) Years ended March 31	1982	1981	1980*	1979	1978
Revenues	**$1,029,888**	$994,471	$901,340	$817,412	$738,928
Percent increase	**3.6%**	10.3%	10.3%	10.6%	16.0%
Operating profit	**44,418**	45,210	37,182	32,117	37,868
Percent increase	**(1.8)%**	21.6%	15.8%	(15.2)%	23.8%
Average capital employed	**262,198**	251,220	249,257	241,401	229,665
Return	**16.9%**	18.0%	14.9%	13.3%	16.5%

*The last-in, first-out method of valuing inventories was extended to substantially all of the group's inventories in 1980.

Affected by highly competitive conditions in the dairy industry and expenses related to the expansion of its water vending business, the Foods Group experienced a 2% decline in operating profit in fiscal 1982 to $44,418,000. Revenues increased 4% to $1,029,888,000. The decline in the profitability of the Dairy Division was partially offset by strong earnings in the Grocery Products Division.

Although the Foods Group's origins are in the dairy foods business, it has been aggressively expanding its non-dairy food business during the past six years, offsetting the cyclicality of the dairy operations. The group now includes four principal units:

Foremost Dairy Division processes and distributes a full range of dairy and associated food products, primarily in the western United States and Hawaii.

Foremost-McKesson Water Division provides bottled drinking water to homes and business establishments in California, Arizona and Texas under the proprietary labels Sparkletts, Alhambra and Crystal. It also operates 2,200 drinking water vending machines throughout the West, the Sunbelt and in some northern markets under the trade name Aqua-Vend.

Foremost-McKesson Grocery Products Division produces and markets Mueller's pasta products in the East and Midwest.

Foremost Food Ingredients Division markets products derived from whey, a cheese-making by-product, and dehydrated onions, garlic and chili peppers.

Two main consumer trends continue to influence the Foods Group's long-range strategy. First, many consumers are increasingly questioning the quality and taste of their municipal drinking water supplies and are turning to bottled water as a pleasant-tasting drinking water alternative. Second, Americans are placing increasing emphasis on fitness, energy and nutrition. Consumers are becoming more aware of pasta as an excellent source of complex carbohydrates which are nutritionally superior to simple sugars and fats as a source of energy. As a result of pasta's changing image in this country, the $1 billion U.S. pasta market is expected to increase to $3 billion by 1991, according to a recent independent research study.

Non-fluid dairy products, pasta and bottled water are strong performers in the Foremost-McKesson Foods Group.

The Foods Group's Grocery Products Division experienced good sales growth in 1982, and profits benefited from lower wheat prices. With its Mueller's noodle and macaroni products and an aggressive starch research and development program, the division is well-positioned to reap the benefits of Americans' growing appetite for pasta. Mueller's branded macaroni, rigatoni, spaghetti and other pastas are sold in 22 eastern states which account for 60% of U.S. pasta consumption. Mueller's products hold 25% of the pasta market in the areas in which they are sold.

Mueller's principal facility is located in Jersey City, New Jersey. A second pasta operation located near Chicago produces Mueller's-brand products and also enjoys a significant share of the institutional market in that area. In fiscal 1982 the Mueller's operations achieved substantial improvements in productivity.

With the opening of a new $1 million pasta research laboratory at Foremost-McKesson's Research Center in Dublin, California, the division is developing and testing a range of improved dry pasta products, including reduced-calorie pasta, and a line of main-dish and side-dish pasta-and-sauce combinations.

Consistent with its strategy of focusing resources on developing and marketing pasta-related products, the Grocery Products Division divested itself in 1982 of two non-pasta products: Milkman, a low-fat dry milk powder, and Magic Shell ice cream topping.

As more and more consumers prefer the taste of bottled drinking water to that of tap water, bottled water sales have climbed in recent years. A recent study forecasts that bottled water consumption will double to more than 600 million gallons by 1992.

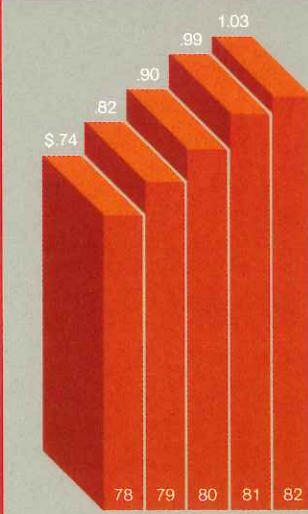
As the nation's leading supplier of bottled drinking water, Foremost-McKesson's Water Division is especially well-equipped to capitalize on growing consumer concern over the quality of public drinking water. In fiscal 1982 sales of the division's three brands of bottled water–Sparkletts in southern California and Texas, Alhambra in northern California and Crystal in Arizona–increased by 20%.

Productivity in the three bottled water companies has been improved by a switch to lightweight polycarbonate bottles. Lighter by 11 pounds than conventional glass containers, the polycarbonate bottles have made the manual job of stacking and loading considerably easier. They have also made all of the division's trucking operations more efficient and cost-effective. In addition, custom-built automated stacking machinery, first pilot-tested in one of the division's southern California production plants, increased productivity by 20%.

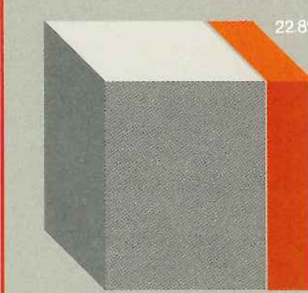
The division's fastest-growing market is northern California, where Alhambra has intensified its marketing effort. Operations have been expanded into the Texas market with the acquisitions of bottled water companies in Lubbock and Dallas, both leaders in their respective markets.

In addition to expanding its bottled water business, the division is steadily increasing installations of its Aqua-Vend machines throughout the Sunbelt and has introduced Aqua-Vend into new markets in Boston and Denver. Actually mini-purification plants, the Aqua-Vend machines use ultrafiltration and reverse osmosis to purify municipal water. The purified water is then dispensed into the customer's own container for home consumption. Certain natural minerals in minute quantities are added back to the purified water to give it a pleasant taste.

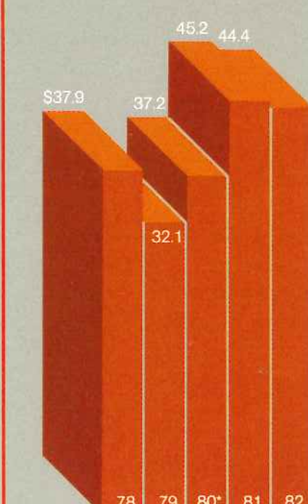
Aqua-Vend units are placed in high foot-traffic locations at or near supermarkets. They eliminate the costs of containers and delivery and expand the market for purified water, since water from Aqua-Vend machines costs consumers as much as 50% less than packaged water sold in supermarkets. By 1985 the division expects to have 6,000 units in operation, three times the 1982 level.



Revenues (in billions)



Revenues



Operating Profit (in millions)
*After extension of LIFO

Operating Profit

The Water Division is supported by Foremost-McKesson's Research Center, which houses one of the most advanced water labs in the nation. The lab is equipped with sophisticated testing devices which detect trace organic compounds as minute as one part per billion. It assists the Water Division in developing new technologies and equipment for purifying and distilling water. The lab maintains quality control over the taste and mineral content of the division's water products.

In fiscal 1982 the Foremost Dairy Division, one of the largest dairy businesses in the West, was affected by price pressures in a number of regional markets. In recent years, the $19 billion dairy industry has been under increasingly competitive pressures, stemming partly from the entrance of regional cooperative dairy producers, many of them Foremost suppliers, into the dairy processing business. In addition, economic conditions led to a slump in the tourist industry, affecting dairy sales in Hawaii and Phoenix, two major markets. As a result of these competitive and recessionary conditions, the Dairy Division's profits declined substantially from 1981 levels.

With the closing of its Seattle-based dairy operation, the division is concentrating operations in regions that are most profitable. The division is also promoting its non-fluid milk products such as yogurt and ice cream, both of which showed sales increases in 1982.

In fiscal 1982 the Food Ingredients Division's earnings declined from 1981 levels due to low prices for commodity whey products and a short onion crop in California. However, the division continued to develop new, specialized markets for whey and lactose, both by-products of the cheese-making process. The division's 140 food ingredient products are derived from whey and dehydrated vegetables, including onions, garlic and chili peppers. Its dehydrated vegetable products maintain 15% to 20% shares of their respective markets.

Food Ingredients can anticipate significant cost and energy savings in the near future as a result of the recent acquisition of Geothermal Food Processors, a vegetable dehydrating plant located near Reno, Nevada, powered by steam from geothermal wells. The steam is used to heat the vegetable dryers and is then recycled back into the ground. The energy the steam provides is clean, renewable and practically costless. The acquisition of Geothermal increases the division's food drying capacity by 20%. Further expansion of the plant is planned.

Wine & Spirits Group: Revenues rose 5% to $859.9 million and operating profit 22% to $32.1 million–both records–despite a slight drop in alcoholic beverage consumption. Responding to shifting tastes and demographics, the group continues to focus on the high-growth Sunbelt states and to emphasize wines and imported beers as well as high-volume spirits. A value-added distribution system and aggressive productivity programs contribute to profitability, market share gains and new franchises.

(dollars in thousands) Years ended March 31	1982	1981	1980*	1979	1978
Revenues	**$859,882**	$816,885	$765,530	$699,150	$632,281
Percent increase	**5.3%**	6.7%	9.5%	10.6%	3.7%
Operating profit	**32,132**	26,297	23,099	27,803	19,975
Percent increase	**22.2%**	13.8%	(16.9)%	39.2%	37.9%
Average capital employed	**96,731**	96,748	90,708	84,817	76,590
Return	**33.2%**	27.2%	25.5%	32.8%	26.1%

*The last-in, first-out method of valuing inventories was extended to substantially all of the group's inventories in 1980.

In fiscal 1982, the Foremost-McKesson Wine & Spirits Group again achieved record results with revenues rising 5% to $859,882,000 and operating profits up 22% to $32,132,000.

The group's outstanding performance was achieved despite less than robust conditions in the wine and spirits industry. In the face of economic recession, some consumers traded down to less expensive products, and consumption of distilled spirits declined slightly. Sales of wines–particularly table wines–and imported beers continued to show healthy growth.

In fiscal 1982, the group continued to follow its long-term strategy for growth based on the trends in wine and spirits sales and demographics. Responding to shifting tastes of consumers, the group continues its involvement in all categories of the industry–spirits, wines and imported beers. Recognizing the varying distribution channels within the industry, the group has created separate sales units to specialize in each of these categories. At the same time, wholesale distribution continues to focus on the high-growth Sunbelt and western states.

With the support of corporate resources, the group enhanced its improvement program in the areas of manpower training and development, materials-handling, distribution, product quality control and formulation, and data processing. This support played an important role in the improvement of the group's productivity.

The group's strong 1982 results reflected good performance in all of its operations. In particular, the expanded implementation of the group's value-added distribution system and an aggressive productivity program in wholesale operations made a significant contribution to overall performance.

Aggressive marketing programs and a trained sales staff ensure maximum distribution of the Wine & Spirits Group's exclusive import lines.

The six units of the Wine & Spirits Group operate in different segments of the alcoholic beverage industry. These include the wholesale distribution of alcoholic beverages in 15 states and the production, importation and marketing of alcoholic beverages. Each unit is organized and staffed to conduct its business in a specialized segment of the industry:

McKesson Wine & Spirits Co., the nation's largest wine and spirits wholesaler, distributes virtually all major brands of alcoholic beverages from one or more of its 39 distribution centers to all licensed retailers in its markets.

"21" Brands distributes and markets domestic wines and spirits as well as imported brands such as Ballantine's Scotch, Canadian Rich & Rare, Galliano liqueurs, Mount Gay rums, Folonari and Rosegarden wines, Tio Pepe Spanish sherry and Emmets, Ireland's Cream Liqueur.

Carlton Importing Company markets imported St. Pauli Girl and San Miguel beers.

Mohawk Liqueur Corporation produces and markets liqueurs, cordials, gin and vodka under the Mohawk label and markets Basilica liqueurs, Martin's V.V.O. eight-year and Muirhead Scotch whiskies and Chartreuse liqueurs.

Galliano International markets Liquore Galliano, Sambuca and Amaretto di Galliano, Mount Gay rums, Mohawk products and selected wines in world markets outside the U.S. Galliano products are made at the Foremost-McKesson-owned Italian subsidiary's facility near Milan, Italy.

Mosswood Wine Company markets chateau and estate-quality wines, including its own labels, produced in Europe and the United States.

McKesson Wine & Spirits Co. is the largest unit of the Wine & Spirits Group. The company distributes alcoholic beverages on an exclusive or semi-exclusive franchise basis, and virtually all major domestic and overseas distilleries and wineries are represented by one or more of its wholesale houses in 14 states. Some 70% of McKesson Wine & Spirits' business is concentrated in the Sunbelt and western regions where population and alcoholic beverage consumption are growing faster than in other parts of the nation.

In fiscal 1982, McKesson Wine & Spirits improved its performance as the result of significant increases in productivity, the effectiveness of its value-added distribution system and the closing in fiscal 1981 of an unprofitable unit.

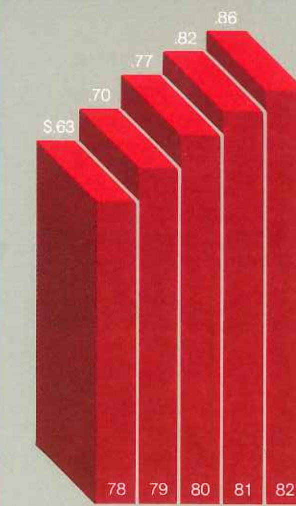
Since 1980, the company has made a significant investment in improving warehouse productivity. In fiscal 1982, McKesson Wine & Spirits houses increased productivity by more than 10%. The company's productivity efforts have resulted in increased profitability.

McKesson Wine & Spirits' value-added distribution program is being augmented by a specially designed management information and order processing system now installed in ten of the company's wholesale houses. Over the next two years, the system will be implemented in all houses. It will enable each house to monitor sales trends for both customers and suppliers and will increase the ability of each unit to anticipate changing market conditions, improve inventory controls and increase distribution center productivity.

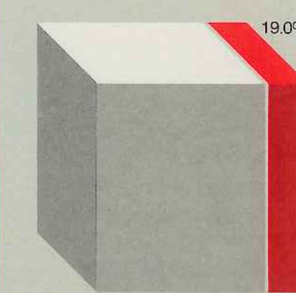
On the marketing side of the Wine & Spirits Group's business, "21" Brands had a good year, with most of its brands performing well. Ballantine's Finest Scotch performed particularly well in the latter part of calendar 1981 and maintained its market share in the highly competitive Scotch whisky category. While sales of Liquore Galliano were lower, "21" successfully introduced its newest import, Emmets, Ireland's Cream Liqueur. A blend of Irish spirits and fresh cream from Ireland's oldest dairy cooperative, Emmets has gained a solid foothold in the rapidly growing market for cream-based liqueurs.

Folonari wines, the fourth largest selling brand of all Italian wines imported into the U.S., continued their growth. Folonari Soave, a popular dry white wine, did extremely well as did sales of the Folonari line of semi-dry wines, including Lambrusco, Bianco and Rosato.

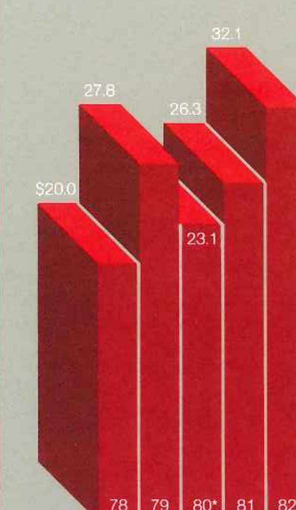
Sales of Mount Gay rum, a premium specialty rum from Barbados and a favorite of the United States yachting community, advanced strongly in 1982. Foremost-McKesson acquired a 60% interest in Mount Gay in 1981. The remaining 40% is still held by descendants of families who have owned and operated the 180-year-old company for more than half a century. To broaden consumers' awareness of Mount Gay, an extensive advertising campaign with a nautical theme is appearing in major magazines.



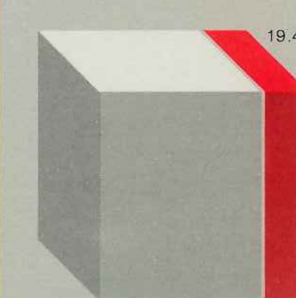
Revenues (in billions)



Revenues



Operating Profit
(in millions)
*After extension of LIFO



Operating Profit

Canadian Rich & Rare, an extra-smooth Canadian whisky bottled in a decanter, posted another year of excellent growth. This product is not in full national distribution but is an important factor in the Washington, Oregon, Michigan, Florida and Georgia markets.

"21" Brands completed its first year of importing and marketing Tio Pepe, the world's leading dry sherry. Sales of the brand were up, reflecting the improvement in retail distribution.

Carlton Importing Company, the group's beer importing and marketing arm, showed excellent gains, with sales of its German beer, St. Pauli Girl, increasing 30%. This growth was at more than twice the rate of the rapidly expanding imported beer category. St. Pauli ranks third among European imports and among the top ten imports.

At the end of fiscal 1982, Carlton announced an agreement with the San Miguel Brewery of Manila, Philippines, to begin importing and marketing San Miguel light and dark beer into most of the United States. This internationally known beer, a leader in the Far East and already well established in West Coast markets, complements St. Pauli Girl.

In fiscal 1982, Mohawk Liqueur Corporation improved its performance as a result of outstanding gains in productivity, as well as increased sales of a number of the brands in its product line. Mohawk vodka increased sales in its home state of Michigan, and Martin's V.V.O. eight-year and Muirhead's Scotch whiskies did better than the Scotch whisky market as a whole. During the year, Mohawk was selected as the exclusive U.S. importer and distributor of the world-famous Chartreuse liqueurs produced in Voiron, near Grenoble, France. In addition, for the first time, Mohawk products are being sold through Galliano International at duty-free shops on the Canadian and Mexican borders and in overseas markets.

Galliano International, which is the group's marketing arm outside the U.S. and in duty-free shops within the U.S., improved results in fiscal 1982. The company sells Galliano and Mohawk products as well as a selection of wines to customers in 85 countries around the world. During fiscal 1982, Galliano International added Mount Gay rum to its portfolio and was successful in opening up new markets for Mount Gay in Australia, New Zealand and Singapore. As a result of an expanded sales force, Galliano International improved its share of the duty-free markets in the U.S.

Mosswood Wine Company was formed in 1977 to seek out, import and market chateau and estate-quality wines produced by small vintners in Europe and California, and to supply these wines to McKesson Wine & Spirits distributing houses to supplement their lines of fine wines. Mosswood, a specialized company still in the development stage, reported another year of good growth.

Chemical Group: Despite the sluggish economy and start-up expenses for new chemical recycling operations, revenues were up 9% to $628.2 million and operating profit increased 2% to $21.4 million. By leveraging its existing base as the nation's largest chemical distributor and its 25 million gallon annual capacity in recycling, the Chemical Group is in a strong position to capitalize on the industry's favorable long-term outlook.

(dollars in thousands) Years ended March 31	1982	1981	1980	1979	1978
Revenues	**$628,207**	$576,775	$505,107	$435,067	$375,688
Percent increase	**8.9%**	14.2%	16.1%	15.8%	17.5%
Operating profit	**21,416**	21,039	17,110	16,561	14,969
Percent increase	**1.8%**	23.0%	3.3%	10.6%	(3.0)%
Average capital employed	**62,813**	62,598	64,758	60,754	40,746
Return	**34.1%**	33.6%	26.4%	27.3%	36.7%

After achieving record sales and earnings in the first half of the year, the Foremost-McKesson Chemical Group experienced a slowdown in the second half due to the general slackening of industrial activity in the U.S.

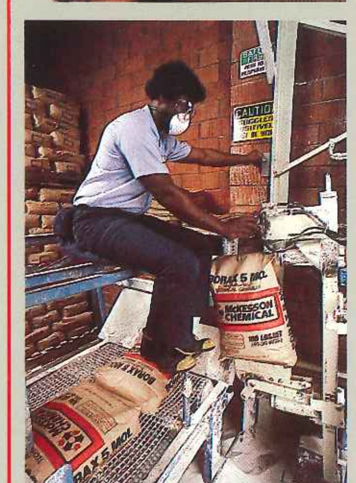
Despite the second-half slump, revenues for the Chemical Group, the nation's largest independent distributor and recycler of chemicals, were up 9% over 1981 levels to $628,207,000. The group's operating profit increased only 2% to $21,416,000. Profits were affected by increased competition stemming from the sluggish industrial activity in the second half of the year and start-up costs for McKesson Envirosystems, the group's newly formed chemical recovery and recycling company.

The Foremost-McKesson Chemical Group consists of two principal units:

McKesson Chemical Company is the leading full-line distributor of industrial chemicals in the United States.

McKesson Envirosystems Company recycles solvent waste streams from industrial customers and then markets and distributes the refined products primarily through McKesson Chemical Company.

The long-term outlook for the chemical wholesale market continues to be favorable, and the distributors' share of the total U.S. market for chemicals is increasing. In 1980, this market was estimated to be in excess of $67 billion and grew at better than 15% per year during the 1976-1980 period. Chemical distributors have also increased their share of this expanding market from 19% in 1976 to 20% in 1980. These positive trends are expected to continue throughout the 1980s.



The Chemical Group is strengthening its distribution network with advanced computer systems and is adding value by bagging, blending and recycling chemicals.

Chemical manufacturers depend on and encourage chemical distributors, such as McKesson Chemical, to get their products to market efficiently and to provide field sales support and development activities for key products. In addition, the growing importance of distributors is linked to their ability to provide valuable services for their customers.

McKesson Chemical has pioneered the value-added concept in chemical distribution by providing services such as bagging, drumming, blending and recycling. In addition, the Chemical Group has augmented its operations with special services for its chemical customers. In Nevada, for example, McKesson Chemical is now operating a 24-hour-a-day transloading service to transport chlorine to the gold mining industry. McKesson Chemical transfers bulk chlorine from rail cars into 17-ton containers and hauls the chemical to the remote mines for use in processing operations and environmental controls.

Another value-added service is McKesson Chemical's assistance to customers in the safe handling, storage, use and disposal of chemicals. McKesson Chemical's emphasis on safety has had a dramatic impact upon personnel and property protection. During the past seven years, the company has reduced lost-time accidents by nearly 75% through safety meetings, equipment inspections, monthly audits and technical seminars. The company's safety management program is regarded as a model for the industry.

Over the past five years McKesson Chemical has spent $50 million to upgrade facilities and tanker fleets, expand geographical coverage in major industrial areas and broaden the scope of its distribution and product capabilities. By 1982, McKesson Chemical had achieved many of its modernization and expansion goals, and plant improvements continued at a more moderate pace. With up-to-date facilities built to accommodate further growth, McKesson Chemical is poised for future expansion without the need for significant future capital investment.

The group's national accounts program, begun in 1976, again produced strong revenues in fiscal 1982, despite the soft economy. The most complete national accounts program in the industry, it centrally coordinates distribution to customers who require deliveries at multiple locations.

In 1982 development of the group's nationwide, on-line order-entry system continued. The $4.5 million computer system will streamline ordering, inventory control, purchasing, accounts receivable, delivery and invoicing procedures. It will provide instantaneous information on inventory, customer profiles and data on the safe handling of each of the 1,200 chemicals sold by McKesson Chemical.

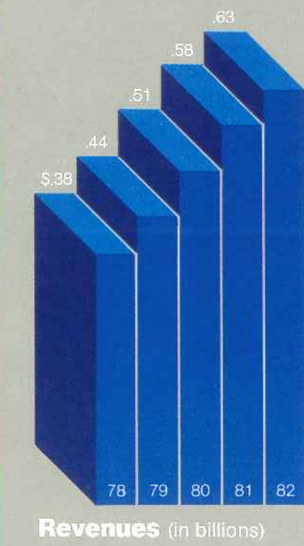
The system will undergo pilot testing in the summer of 1982 and is scheduled to be operating nationwide by the fall of 1983.

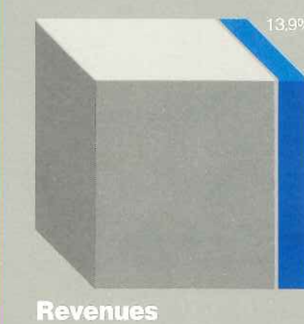
In July 1981 the Foremost-McKesson Chemical Group formed McKesson Envirosystems, a chemical recovery and recycling company created to reclaim solvent waste streams.

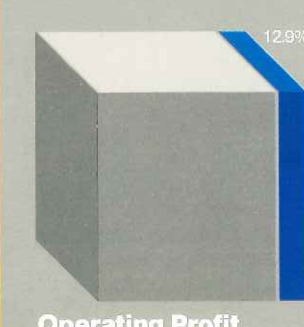
Recent regulations under the federal Resource Conservation and Recovery Act of 1980 (RCRA) require the nation's chemical industry and its thousands of customers to dispose of hazardous chemicals safely. Recycling offers a safe, economical alternative for industries which use virgin solvents for processing and manufacturing.

Chemical recycling, however, is not yet a fully developed industry. Of the 100 solvent refineries in the United States, the majority are small-capacity operations which may find it difficult to meet federal and state standards without substantial capital outlays and better operating procedures.

McKesson Envirosystems has brought the Chemical Group's nationwide distribution network and its safety, marketing and sales expertise to the field of chemical recycling. In December 1981, the group acquired Inland Chemical Corporation, with recycling facilities in Newark, New Jersey; New Castle, Kentucky; and Manati, Puerto Rico, as well as a bulk terminal in Syracuse, New York. With the Dolton, Illinois, recycling plant, which the Chemical Group has operated since 1980, McKesson Envirosystems now operates four solvent recovery facilities in major industrial areas with a total annual capacity of 25 million gallons. The addition of Inland Chemical with its operating facilities gives the group a three-year head start on its plans to tap the vast solvent recycling market.







McKesson Envirosystems provides a new value-added service and an attractive disposal and recovery alternative for more than half of the group's 45,000 customers who buy virgin chlorinated and fluorinated solvents for cleaning metal parts and electronic circuitry, as well as other solvents for manufacturing products such as paint and ink. After first analyzing a customer's solvent stream, McKesson Envirosystems collects the spent material from customers, removes contaminants and then markets the reclaimed chemicals under its own label through McKesson Chemical. The Chemical Group's network of more than 300 sales representatives identifies potential recyclable waste streams, ensuring maximum operation of McKesson Envirosystems' plants.

During the year, McKesson Envirosystems upgraded the Dolton facility and made investments to upgrade the former Inland plants. Although spent and virgin solvent streams decreased in the second half of the year due to the decline in industrial activity, McKesson Envirosystems is pursuing its plans to identify other recycling opportunities in key industrial chemical use areas of the country. By fiscal 1985, McKesson Envirosystems aims to capture at least 10% of the recyclable solvent market.

In the future, McKesson Envirosystems will be complemented by Foremost-McKesson's Environmental Services unit, now operating from the corporate Research Center in Dublin, California. Staffed by the Research Center's hydrogeologists, field engineers and laboratory analysts, Environmental Services monitors ground water quality, provides regulatory consultation, and makes recommendations for management of chemical waste compliance programs for a number of major businesses in the western United States. The service will soon be offered in other industrial areas of the country.

With the existing franchise in chemical distribution in McKesson Chemical, the developing chemical solvents recovery capability in McKesson Envirosystems and the environmental services offered by the Foremost-McKesson Environmental Services unit, Foremost-McKesson offers a full range of value-added services to industrial customers.

Development Group: This new unit seeks to acquire small, entrepreneurial, rapidly expanding businesses which can accelerate corporate growth through the development of new proprietary products and value-added distribution services. Two existing businesses showed strong growth in fiscal '82: Sales of Armor All Products climbed and Pharmaceutical Card System showed a 20% increase in claims processed.

(dollars in thousands) Years ended March 31	**1982**	1981	1980	1979	1978
Revenues	**$99,113**	$87,901	$80,543	$46,719	$47,507
Percent increase	**12.8%**	9.1%	72.4%	(1.7)%	15.4%
Operating profit	**19,591**	19,108	14,013	10,288	9,867
Percent increase	**2.5%**	36.4%	36.2%	4.3%	117.3%
Average capital employed	**63,380**	61,335	61,963	44,168	42,181
Return	**30.9%**	31.2%	22.6%	23.3%	23.4%

In fiscal 1982, the Foremost-McKesson Development Group was created to provide management direction and access to corporate resources for small, entrepreneurial, growth-oriented businesses already owned or to be acquired by the corporation and to seek new business opportunities that would enhance existing operations. The group also serves as a logical entry point for acquisitions that do not fit easily within existing operations.

For financial reporting purposes, the group also includes Foremost-McKesson International, although Development and International are each managed independently.

The group reported a 13% increase in revenues to $99,113,000 in fiscal 1982 and a 3% increase in operating profit to $19,591,000.

The Development Group now consists of three businesses:

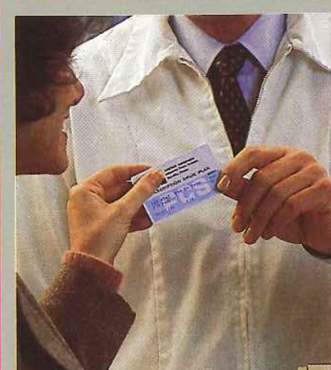
Armor All Products, a maker of appearance protection products for automotive and household use.

Pharmaceutical Card System, which processes payments of third-party prescription drug claims for insurance companies, employee and union groups, and also provides market research information on pharmaceutical sales and market share to manufacturers and others.

California Culinary Academy, located in San Francisco, the only school for professional chefs in the western United States.

In prior years, results of Armor All and Pharmaceutical Card System were included in the Drug & Health Care Group.

During the year, the Development Group reviewed more than 200 acquisition candidates. The group actively seeks businesses which can accelerate Foremost-McKesson's growth through development of new proprietary products and services or value-added distribution opportunities. Acquisition candidates may be entrepreneurial young businesses that are developing rapidly or new ventures requiring an investment and management participation.



Armor All Products, Pharmaceutical Card System and the California Culinary Academy form the core of the newly created Development Group, which seeks out and develops entrepreneurial young businesses.

The Development Group is supported in its acquisition and marketing efforts by the corporate Research Center staff and facilities in Dublin, California, where specialists test and evaluate products and processes acquired by or of potential interest to the group.

In fiscal 1982, Armor All Products continued to show good sales gains despite increased competition and the dampening effects of a harsh winter on the car care market. To offset these developments, advertising and marketing outlays were boosted over 30%, and sales and profits showed good gains for the year.

Armor All Protectant, the company's main product, protects and enhances the appearance of most porous materials, including rubber, leather, vinyl, plastic, plexiglass, acrylics, paint and wood. Armor All Protectant replaces a substantial number of automotive and household chemicals.

Armor All Products is actively seeking to expand the markets for its products. In fiscal 1982 it began testing the Armor All Service Program, which includes coin-operated vending machines dispensing four-ounce packages of Armor All Protectant at self-service car wash operations. It is also testing application of Armor All to car interiors and exteriors by employees at full-service car washes, service stations and automobile dealerships.

Pharmaceutical Card System (PCS), a growth-oriented prescription drug claims processing service offered primarily through insurance companies and employers, once again set new records in 1982. The group processed 22,430,000 claims, up 20% from the previous year. PCS now has 2,200,000 card holders, an increase of 25% over 1981 levels, and covers more than six million individuals.

PCS cards are issued as an employee benefit by more than 40,000 employers. Its services are offered through some 100 insurance companies in the United States and Canada. More than 45,000 of the nation's 50,000 pharmacies fill prescriptions for PCS card holders, usually at a cost of $2 or less per prescription.

PCS is also processing prescription claims for the Drug & Health Care Group's Econoclaim system, now being field-tested in Texas and Michigan. Econoclaim is a low-cost, computerized system for pharmacists to enter third-party claims for prescription drugs. PCS will expand its Econoclaim processing services as the system is introduced in other states.

Pharmaceutical Data Services (PDS) uses prescription sales data generated by PCS as a base for the pharmaceutical marketing information it provides to major pharmaceutical manufacturers, investment firms and government agencies. PDS analyzes the flow of pharmaceutical products through the health care system and is developing a range of new services, including detailed analyses of prescription drug use in hospitals and nursing care facilities.

Complimentary Prescription Service (CPS), a proprietary service which offers an alternative to the physical distribution of drug samples through doctors' offices, issued more than seven million complimentary prescriptions for drug manufacturers in 1982, up 13% over 1981 levels.

The Development Group is also interested in a number of employee-benefit services, similar to Pharmaceutical Card System, which in the future could form the nucleus of a new Foremost-McKesson business. The group has acquired an interest in National Optical Service, Inc., a recently formed membership eye-care service with three outlets in Phoenix and Tucson. Participating employers pay a fee which entitles their employees to purchase eyeglasses from a National Optical dispensing facility at cost plus a dispensing fee. The service is performing well and expansion is planned into other western markets.

In January 1982 the Development Group added the California Culinary Academy to its portfolio of businesses. Modeled after two Swiss cooking schools, the Academy features a rigorous program of French and continental cooking, taste evaluation, wines and management theory. Its 250 students enroll in a 16-month course of study and prepare and serve meals at a popular restaurant open to the public.

The acquisition of the California Culinary Academy offers Foremost-McKesson a range of opportunities, particularly in the wine and gourmet markets. The Academy is now developing and pilot testing the first professional wine school in the United States, designed to teach restaurateurs, wine salespeople and prospective sommeliers the fine points of wine selection, service and storage.

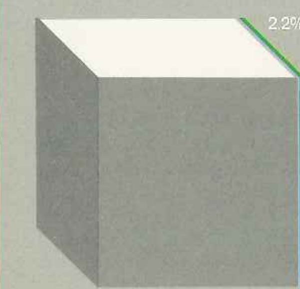
International Division

In fiscal 1982, Foremost International and McKesson International were merged to form Foremost-McKesson International. Earnings of the new unit are reported with those of the Development Group.

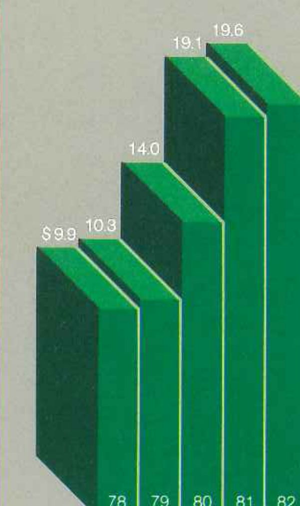
International's performance was steady, despite general economic decline in many of the nations in which operations are located. Earnings were strong in most of its dairy operations, especially in Thailand, Okinawa and Guam, and in its trading operations in Holland. In its first full year of operation, the dairy unit in Saudi Arabia had an impressive sales performance. Pharmaceutical operations in Central America and Ecuador made important contributions to the division's earnings.

The division has begun work to modernize the distribution facilities and increase storage space for both fluid and frozen products in its Guam operation, and the renovation will be completed in fiscal 1983.

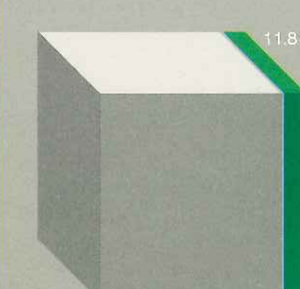
Revenues (in millions)



Revenues



Operating Profit (in millions)



Operating Profit

Homebuilding Operations

In order to achieve its long-term growth objectives and concentrate corporate resources on value-added distribution and proprietary products, Foremost-McKesson before year-end decided to commence an orderly divestiture of its homebuilding operations.

The division, with developments in northern California and Arizona, has been highly profitable and is regarded as one of the best-managed operations in the industry. In fiscal 1982, the worst year in the real estate industry since World War II, the division earned $4,903,000. Although this represents a decline of 44% from 1981 levels, the performance was exceptional in the homebuilding industry.

Foremost-McKesson's investment in the division is approximately $35 million. Proceeds from the divestiture will be utilized in current businesses.

In 1982 homebuilding operations were adversely affected by high mortgage rates, which hovered between 16% and 18%, as well as the increasing difficulty of obtaining home mortgages through traditional lending sources. At the same time, inflation continued to fuel an increase in housing construction and product costs. Homebuilding management anticipated the downturn early and succeeded in reducing inventories significantly from 1980 levels. At year-end, fewer than 300 houses were in inventory, down from 647 two years ago.

Following are the trademarks of Foremost-McKesson, Inc., its operating groups, its subsidiaries or its suppliers appearing in this report:

Alhambra™ Amaretto di Galliano® Aqua-Vend® Armor All® Ballantine's® Basilica® Canadian Rich & Rare™ Chartreuse® CPS™ CosMcK™ Crystal™ Econocharge™ Econoclaim™ Econofiche™ Economost® Econoplan™ Econoprice™ Econo-Series™ Econotone® Emmets® Folonari™ Foremost® Glenmorangie® Hi Lights™ Liquore Galliano® Martin's Original V.V.O.™ Mohawk® Mosswood™ Mount Gay® Mueller's® Muirhead's® PCS® PDS™ Planogram™ Rosegarden® Sambuca di Galliano® San Miguel® Sparkletts® St. Pauli Girl® SunMark® Tio Pepe® Touch Tone® "21" Brands® Valu-Rite®

Five-Year Highlights

Consolidated Operations

(in thousands except per share amounts)

Years ended March 31	**1982**	1981	1980[1]	1979	1978
Revenues	**$4,520,751**	$4,153,345	$3,681,180	$3,262,814	$2,904,612
Percent increase	**8.8%**	12.8%	12.8%	12.3%	13.8%
Gross profit	**748,586**	678,232	627,473	558,806	489,184
Percent of revenues	**16.6%**	16.3%	17.0%	17.1%	16.8%
Operating profit	**165,764**	150,888	122,662	118,593	105,316
Percent increase	**9.9%**	23.0%	3.4%	12.6%	30.6%
Percent of revenues	**3.7%**	3.6%	3.3%	3.6%	3.6%
Addition to LIFO reserve	**27,095**	26,383	21,049	771	1,576
Interest expense	**34,772**	28,519	29,096	24,027	21,634
Income before taxes	**123,269**	105,897	85,582	90,571	79,094
Percent increase	**16.4%**	23.7%	(5.5)%	14.5%	37.6%
Percent of revenues	**2.7%**	2.5%	2.3%	2.8%	2.7%
Taxes on income	**54,635**	45,329	36,074	41,873	39,939
Effective tax rate	**44.3%**	42.8%	42.2%	46.2%	50.5%
Income after taxes					
Continuing operations	**68,634**	60,568	49,508	48,698	39,155
Percent increase	**13.3%**	22.3%	1.7%	24.4%	24.5%
Percent of revenues	**1.5%**	1.5%	1.3%	1.5%	1.3%
Discontinued operations	**4,903**	8,687	17,270	9,042	5,665
Net income	**73,537**	69,255	66,778	57,740	44,820
Average preferred stocks and common stockholder equity	**456,905**	443,878	410,881	358,368	318,354
Return[2]	**15.0%**	13.6%	12.0%	13.6%	12.3%
Average capital employed[3]	**793,823**	758,120	722,960	697,676	658,845
Turnover[4]	**5.7**	5.5	5.1	4.7	4.4
Return[2]	**8.6%**	8.0%	6.8%	7.0%	5.9%
Total dividends paid	**35,811**	32,400	26,360	19,775	16,983
Fully diluted earnings per common share					
Continuing operations	**$3.88**	$3.37	$2.82	$2.78	$2.30
Percent increase	**15.1%**	19.5%	1.4%	20.9%	21.1%
Discontinued operations	**.26**	.48	1.00	.57	.33
Total	**$4.14**	$3.85	$3.82	$3.35	$2.63
Shares on which earnings per common share were based	**18,644**	18,289	18,019	17,958	17,598
Common shares outstanding–at year-end	**16,020**	16,004	15,044	13,534	12,576
Dividends per common share	**$2.24**	$2.00	$1.67	$1.24	$1.07½
Book value per common share	**$29.01**	$28.37	$26.10	$23.81	$21.11

[1]The last-in, first-out method of valuing inventories was extended to substantially all of the company's inventories in 1980.
[2]Based on income from continuing operations. The 1980 return on average equity and return on average capital employed would have been 13.9% and 7.8% respectively if the company had not extended the LIFO method of valuing inventories.
[3]Capital employed consists of total debt, deferred taxes on income, preferred stocks and common stockholder equity.
[4]Revenues divided by average capital employed.

Five-Year Highlights

Consolidated Financial Position

(dollars in thousands)

Years ended March 31	**1982**	1981	1980[1]	1979	1978
Receivables	**$389,598**	$372,394	$336,154	$291,607	$269,115
Turnover	**11.6**	11.2	11.0	11.2	10.8
Days of sales	**31.0**	32.3	32.9	32.2	33.4
Inventories–LIFO cost	**406,455**	404,667	396,293	367,148	322,853
Inventories–FIFO cost	**493,391**	464,508	429,751	379,557	334,491
Turnover	**7.6**	7.4	7.1	7.1	7.2
Days of sales	**47.4**	48.4	51.0	51.0	50.3
Current assets	**851,852**	824,143	779,000	696,301	628,202
Current liabilities	**555,308**	545,099	515,801	461,203	422,170
Working capital	**296,544**	279,044	263,199	235,098	206,032
Turnover[2]	**15.2**	14.9	14.0	13.9	14.1
Percent of capital employed	**35.1%**	36.6%	36.4%	34.1%	29.7%
Property, plant and equipment–net	**297,016**	251,236	221,327	201,173	190,100
Percent of capital employed	**35.1%**	33.0%	30.6%	29.2%	27.4%
Capital expenditures	**73,057**	62,608	55,438	46,130	33,207
Depreciation	**33,918**	29,488	26,836	25,516	23,822
Total assets	**1,384,799**	1,275,087	1,203,057	1,127,859	1,033,343
Total debt[3]	**320,585**	252,870	277,750	290,557	328,977
Redeemable preferred stock	**196**	4,220	4,336	11,401	11,424
Nonredeemable preferred stock	**16,670**	22,009	27,482	44,425	64,626
Common stockholder equity[5]	**464,673**	453,988	392,572	322,245	265,525
Capital employed[4]	**845,253**	762,118	723,282	689,279	693,382
Ratio of debt to capital employed	**37.9%**	33.2%	38.4%	42.2%	47.4%

Statistical Data

Preferred stockholders	**6,000**	6,700	7,700	10,500	12,300
Common stockholders	**37,000**	40,400	42,600	44,500	46,000
Employees	**16,600**	16,700	17,400	17,600	17,200

[1]The last-in, first-out method of valuing inventories was extended to substantially all of the company's inventories in 1980.
[2]Revenues divided by working capital.
[3]Total debt includes all interest-bearing debt and capitalized lease obligations.
[4]Capital employed consists of total debt, deferred taxes on income, preferred stocks and common stockholder equity.
[5]In 1982, common stockholder equity was reduced $60,346,000 by the repurchase of 1,551,787 shares of common stock.

Five-Year Highlights

Operating Groups

(dollars in thousands)

Years ended March 31	1982	1981	1980[1]	1979	1978
Drug & Health Care					
Revenues	**$1,903,661**	$1,677,313	$1,428,660	$1,264,466	$1,110,208
Percent increase	**13.5%**	17.4%	13.0%	13.9%	17.6%
Operating profit	**48,207**	39,234	31,258	31,824	22,637
Percent increase	**22.9%**	25.5%	(1.8)%	40.6%	45.6%
Percent of revenues	**2.5%**	2.3%	2.2%	2.5%	2.0%
Average capital employed	**211,518**	195,727	176,409	163,511	150,421
Turnover[2]	**9.0**	8.6	8.1	7.7	7.4
Return[3]	**22.8%**	20.0%	17.7%	19.5%	15.0%
Addition to LIFO reserve	**19,856**	14,274	9,052	(1,543)	287
Identifiable assets	**440,833**	388,631	344,798	312,532	281,236
Capital expenditures	**18,192**	13,018	8,223	3,464	3,136
Depreciation and amortization	**5,709**	4,294	4,379	4,926	4,941
Foods					
Revenues	**$1,029,888**	$994,471	$901,340	$817,412	$738,928
Percent increase	**3.6%**	10.3%	10.3%	10.6%	16.0%
Operating profit	**44,418**	45,210	37,182	32,117	37,868
Percent increase	**(1.8)%**	21.6%	15.8%	(15.2)%	23.8%
Percent of revenues	**4.3%**	4.5%	4.1%	3.9%	5.1%
Average capital employed	**262,198**	251,220	249,257	241,401	229,665
Turnover[2]	**3.9**	4.0	3.6	3.4	3.2
Return[3]	**16.9%**	18.0%	14.9%	13.3%	16.5%
Addition to LIFO reserve	**519**	3,548	5,001	970	47
Identifiable assets	**344,771**	341,661	324,391	312,363	290,565
Capital expenditures	**33,361**	28,184	27,059	26,998	19,814
Depreciation and amortization	**22,152**	20,045	18,339	17,307	16,738
Wine & Spirits					
Revenues	**$859,882**	$816,885	$765,530	$699,150	$632,281
Percent increase	**5.3%**	6.7%	9.5%	10.6%	3.7%
Operating profit	**32,132**	26,297	23,099	27,803	19,975
Percent increase	**22.2%**	13.8%	(16.9)%	39.2%	37.9%
Percent of revenues	**3.7%**	3.2%	3.0%	4.0%	3.2%
Average capital employed	**96,731**	96,748	90,708	84,817	76,590
Turnover[2]	**8.9**	8.4	8.4	8.2	8.3
Return[3]	**33.2%**	27.2%	25.5%	32.8%	26.1%
Addition to LIFO reserve	**4,510**	4,729	3,130	733	
Identifiable assets	**202,839**	197,174	197,648	179,705	166,853
Capital expenditures	**3,953**	4,050	3,623	2,236	1,468
Depreciation and amortization	**2,587**	2,228	1,696	1,389	1,374

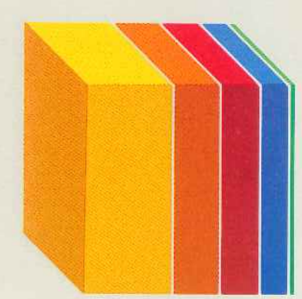
Five-Year Highlights

Operating Groups

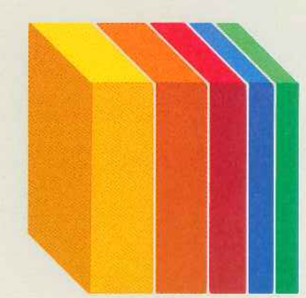
(dollars in thousands)

Years ended March 31	1982	1981	1980[1]	1979	1978
Chemical					
Revenues	**$628,207**	$576,775	$505,107	$435,067	$375,688
Percent increase	**8.9%**	14.2%	16.1%	15.8%	17.5%
Operating profit	**21,416**	21,039	17,110	16,561	14,969
Percent increase	**1.8%**	23.0%	3.3%	10.6%	(3.0)%
Percent of revenues	**3.4%**	3.6%	3.4%	3.8%	4.0%
Average capital employed	**62,813**	62,598	64,758	60,754	40,746
Turnover[2]	**10.0**	9.2	7.8	7.2	9.2
Return[3]	**34.1%**	33.6%	26.4%	27.3%	36.7%
Addition to LIFO reserve	**2,210**	3,832	3,866	611	1,242
Identifiable assets	**150,798**	126,338	127,508	115,196	103,782
Capital expenditures	**12,305**	5,415	8,815	7,377	6,847
Depreciation and amortization	**4,768**	3,831	3,256	2,711	1,777
Development and International					
Revenues	**$99,113**	$87,901	$80,543	$46,719	$47,507
Percent increase	**12.8%**	9.1%	72.4%	(1.7)%	15.4%
Operating profit	**19,591**	19,108	14,013	10,288	9,867
Percent increase	**2.5%**	36.4%	36.2%	4.3%	117.3%
Percent of revenues	**19.8%**	21.7%	17.4%	22.0%	20.8%
Average capital employed	**63,380**	61,335	61,963	44,168	42,181
Turnover[2]	**1.6**	1.4	1.3	1.1	1.1
Return[3]	**30.9%**	31.2%	22.6%	23.3%	23.4%
Identifiable assets	**97,952**	89,026	82,981	72,788	48,133
Capital expenditures	**357**	411	705	182	344
Depreciation and amortization	**1,636**	1,636	1,560	362	344

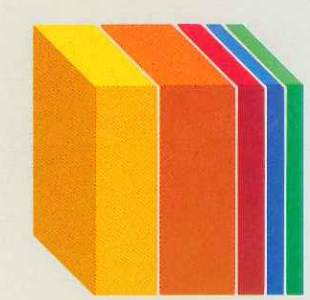
[1] The last-in, first-out method of valuing inventories was extended to substantially all of the company's inventories in 1980.
[2] Revenues divided by average capital employed.
[3] Based on operating profit.



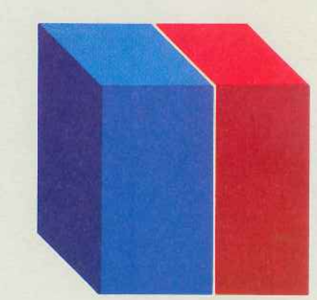
Revenues
- Drug & Health Care 42.1%
- Foods 22.8%
- Wine & Spirits 19.0%
- Chemical 13.9%
- Development and International 2.2%



Operating Profit
- Drug & Health Care 29.1%
- Foods 26.8%
- Wine & Spirits 19.4%
- Chemical 12.9%
- Development and International 11.8%

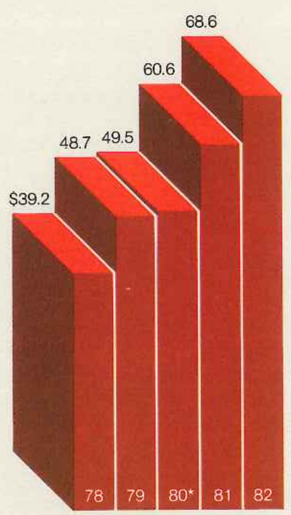


Average Capital Employed
- Drug & Health Care 30.4%
- Foods 37.6%
- Wine & Spirits 13.9%
- Chemical 9.0%
- Development and International 9.1%

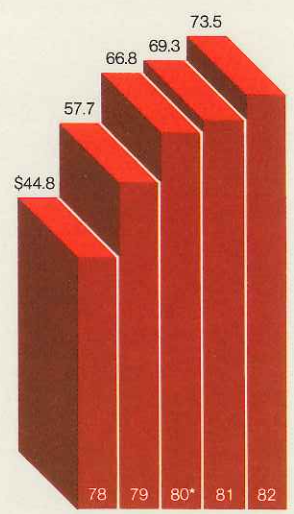


Categories of Business
- Value-Added Distribution 55%
- Proprietary Products and Services 45%

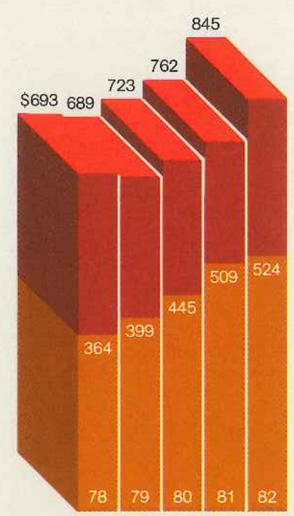
Five-Year Highlights



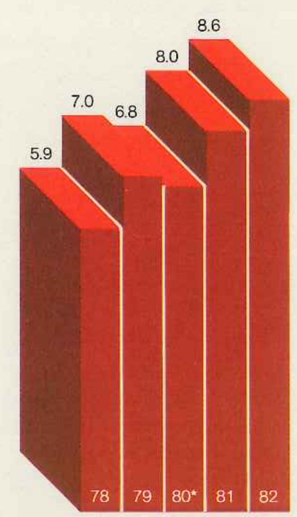
Income from Continuing Operations
(in millions)
*After extension of LIFO



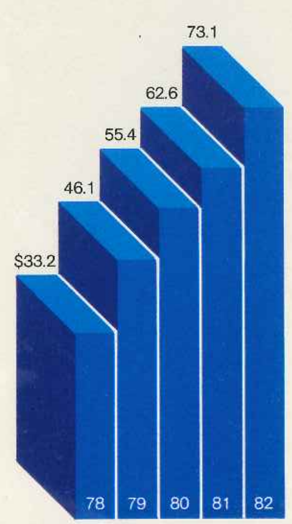
Net Income
(in millions)
*After extension of LIFO



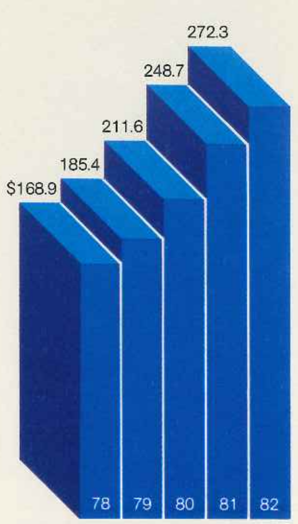
Capital Employed At Year-End
(in millions)
■ Debt
■ Equity



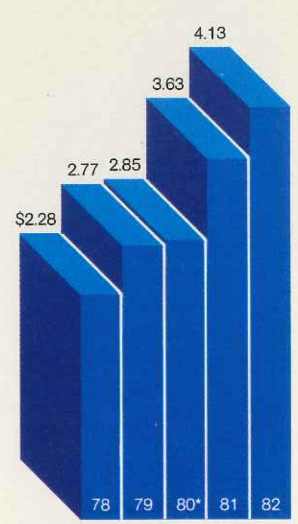
Return on Average Capital Employed
(as a percent)
*After extension of LIFO



Capital Expenditures
(in millions)



Revenues Per Employee
(in thousands)



Income from Continuing Operations Per Employee
(in thousands)
*After extension of LIFO

Capital Employed Per Employee
(in thousands)

Financial Review

Consolidated Operations

Revenues

In fiscal 1982 revenues rose $367 million or 9%. Just over 20% of the increased sales dollars came through growth in unit sales volume. While the approximately 2% increase in unit sales was less than our 6% real growth in 1981, it was significant in view of a 2% decline in real Gross National Product (GNP) in 1982.

McKesson Drug Company, the Water Division and Wine & Spirits imported products showed the largest percentage increases in sales for the year. In dairy operations, competitive pressures kept sales flat in 1982. Chemical sales were adversely affected by the recession.

Operating Profit

In 1982 operating profit increased faster than revenue growth. Productivity gains in McKesson Drug Company and improved gross margins in the Wine & Spirits Group were the major factors contributing to the gain in operating profit margins. Dairy Division profits were down substantially from 1981 due principally to competitive pressures.

Interest Expense

Interest expense was $34.8 million in 1982 compared with $28.5 million in 1981. This increase is attributable to the issuance of convertible debt which financed the repurchase of 1,551,787 shares of the company's common stock from Sharon Steel Corporation in May 1981. The after-tax interest expense on the added debt was totally offset by a reduction in the dividends which would have been paid on the repurchased stock. Without this repurchase, 1982 interest expense would have been lower than in either 1981 or 1980.

Discontinued Operations

A decision to begin an orderly divestiture of the company's homebuilding operations led to the classification of homebuilding results as "Discontinued Operations." Homebuilding contributed 6.7% of total net income in 1982, down from 12.5% in 1981 and 13.1% in 1980, reflecting the deeply depressed state of the industry.

Financial Condition

Working Capital

Working capital increases in 1982 and 1981 were $18 million and $16 million, respectively. These increments were minimized by the application of the LIFO method of valuing inventories. Working capital turnover increased to 15.2 times in 1982 from 14.9 times in 1981 and 14.0 times in 1980. The number of days of sales in accounts receivable was 31 in 1982, down from 32.3 in 1981 and 32.9 in 1980. The number of days of sales in inventories, calculated on a FIFO basis, was 47.4 in 1982, down from 48.4 in 1981 and 51.0 in 1980. These improved operating measures reflect management's close attention to the control of working capital levels.

Capital Expenditures and Acquisitions

Capital expenditures increased 17% in 1982 to $73.1 million from $62.6 million in 1981. Major expenditures were made by McKesson Drug as part of its program to modernize and consolidate its distribution centers and by the Water Division for its Aqua-Vend and bottled water operations.

Six acquisitions were completed in 1982 at a cost of approximately $25,000,000 in cash and stock. Amounts paid for acquisitions were $2,000,000 in 1981 and $3,300,000 in 1980.

Liquidity

The company's ratio of debt to total capital employed was 37.9% at March 31, 1982, up from 33.2% at March 31, 1981, but below the 38.4% ratio at March 31, 1980. The 1982 increase resulted from the company's borrowing in the first quarter to finance the repurchase of common stock from Sharon Steel Corporation. It is the company's intention to maintain the debt-to-capital ratio in the 35% to 40% range.

Concurrent with the June 1981 debenture issuance, the company's subordinated debt rating was raised to Baa from Ba by Moody's and to BBB+ from BBB by Standard & Poors Corporation. Publicly offered senior funded debt of the company issued in 1982 was rated A by Moody's and A– by Standard & Poors Corporation.

The company's revolving credit agreement with eight major banks was increased from $115 million to $150 million in 1981 and was maintained at that level in 1982. The banks guarantee availability of these amounts on a revolving basis. The company has $158 million of committed bank borrowing availability in excess of the amount outstanding at March 31, 1982.

During the fiscal 1978-1982 period, total debt, excluding the amount required to fund the 1982 stock repurchase, has decreased each year.

In recent years, the company's operations have generated sufficient resources to meet its capital expenditure and dividend requirements, and it is expected that this trend will continue. The company does not have significant contractual commitments for future capital expenditures. It is the company's current policy to increase dividends generally in line with earnings growth.

Quarterly Highlights

Years ended March 31 (in thousands except per share amounts)

1982	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Revenues	$1,088,484	$1,120,662	$1,190,840	$1,120,765	$4,520,751
Gross profit	178,126	186,236	196,856	187,368	748,586
Net income					
Continuing operations	$ 14,776	$ 17,492	$ 21,229	$ 15,137	$ 68,634
Discontinued operations	1,233	1,007	927	1,736	4,903
Total	$ 16,009	$ 18,499	$ 22,156	$ 16,873	$ 73,537
Earnings per common share					
Fully diluted					
Continuing operations	$.85	$1.00	$1.18	$.85	$3.88
Discontinued operations	.07	.06	.04	.09	.26
Total	$.92	$1.06	$1.22	$.94	$4.14
Primary					
Continuing operations	$.93	$1.12	$1.32	$.91	$4.28
Discontinued operations	.08	.06	.06	.11	.31
Total	$1.01*	$1.18*	$1.38*	$1.02	$4.59
Cash dividends per share					
Common	$.56	$.56	$.56	$.56	$2.24
Series A preferred	.45	.45	.45	.45	1.80
Series B preferred	.51¼	.51¼	.51¼	.51¼	2.05
Market prices per common share	$36-40⅜	$32⅛-39	$33⅛-39⅝	$30½-37⅝	$30½-40⅜

1981	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Revenues	$960,787	$1,019,651	$1,108,185	$1,064,722	$4,153,345
Gross profit	160,379	166,895	178,826	172,132	678,232
Net income					
Continuing operations	$ 13,497	$ 13,851	$ 18,279	$ 14,941	$ 60,568
Discontinued operations	889	2,962	2,967	1,869	8,687
Total	$ 14,386	$ 16,813	$ 21,246	$ 16,810	$ 69,255
Earnings per common share					
Fully diluted					
Continuing operations	$.76	$.78	$1.01	$.82	$3.37
Discontinued operations	.05	.16	.16	.11	.48
Total	$.81	$.94	$1.17	$.93	$3.85
Primary					
Continuing operations	$.85	$.87	$1.14	$.92	$3.78
Discontinued operations	.06	.19	.19	.11	.55
Total	$.91	$1.06	$1.33	$1.03	$4.33
Cash dividends per share					
Common	$.50	$.50	$.50	$.50	$2.00
Series A preferred	.45	.45	.45	.45	1.80
Series B preferred	.51¼	.51¼	.51¼	.51¼	2.05
Market prices per common share	$23¼-29¼	$25⅝-31¼	$27-35	$31⅜-37¼	$23¼-37¼

*Restated in accordance with FASB Statement No. 55, "Determining whether a Convertible Security is a Common Stock Equivalent," issued in February 1982.

Statements of Consolidated Income

(in thousands except per share amounts)

Years ended March 31	1982	1981	1980
Revenues			
Sales	**$4,492,782**	$4,132,585	$3,661,576
Other	**27,969**	20,760	19,604
Total	**4,520,751**	4,153,345	3,681,180
Costs and Expenses			
Cost of sales	**3,744,196**	3,454,353	3,034,103
Selling	**181,465**	160,813	150,228
Distribution	**252,517**	231,800	236,894
Administrative	**184,532**	171,963	145,277
Interest–principally long-term debt	**34,772**	28,519	29,096
Total	**4,397,482**	4,047,448	3,595,598
Income Before Taxes on Income	**123,269**	105,897	85,582
Taxes on income (Note 12)	**54,635**	45,329	36,074
Income After Taxes			
Continuing operations	**68,634**	60,568	49,508
Discontinued operations (Note 5)	**4,903**	8,687	17,270
Net Income	**$ 73,537**	$ 69,255	$ 66,778
Per Common Share (Note 1)			
Fully diluted earnings			
Continuing operations	**$3.88**	$3.37	$2.82
Discontinued operations	**.26**	.48	1.00
Total	**$4.14**	$3.85	$3.82
Primary earnings			
Continuing operations	**$4.28**	$3.78	$3.25
Discontinued operations	**.31**	.55	1.18
Total	**$4.59**	$4.33	$4.43
Shares on Which Earnings Per Common Share Were Based (Note 1)			
Fully diluted	**18,644**	18,289	18,019
Primary	**15,814**	15,646	14,564

See Financial Notes.

Consolidated Balance Sheets

Assets

(in thousands)

March 31	1982	1981	1980
Current Assets			
Cash	**$ 43,308**	$ 34,462	$ 33,929
Accounts receivable (Note 2)	**389,598**	372,394	336,154
Inventories (Notes 1 and 3)	**406,455**	404,667	396,293
Prepaid expenses (Note 12)	**12,491**	12,620	12,624
Total	**851,852**	824,143	779,000
Property, Plant and Equipment (Note 1)			
Land	**22,202**	15,850	14,017
Buildings	**140,799**	123,361	113,920
Machinery and equipment	**345,021**	295,978	264,293
Total	**508,022**	435,189	392,230
Accumulated depreciation	**211,006**	183,953	170,903
Net	**297,016**	251,236	221,327
Investments			
Foreign companies (Notes 1 and 4)	**36,219**	36,984	36,760
Other (Note 1)	**29,071**	8,167	9,936
Total	**65,290**	45,151	46,696
Other Assets			
Goodwill and other intangibles	**91,312**	91,090	94,145
Net assets of discontinued operations (Note 5)	**34,548**	31,619	26,291
Notes receivable	**33,346**	26,071	30,127
Other	**11,435**	5,777	5,471
Total	**170,641**	154,557	156,034
Total	**$1,384,799**	$1,275,087	$1,203,057

Consolidated Balance Sheets

Liabilities and Equity

(in thousands)

March 31	1982	1981	1980
Current Liabilities			
Accounts and drafts payable	**$ 439,905**	$ 403,582	$ 374,215
Current portion of long-term debt (Notes 7 and 9)	**15,762**	32,130	36,026
Salaries and wages	**41,007**	38,992	33,675
Taxes	**17,886**	28,981	29,067
Interest and dividends	**15,800**	14,485	12,952
Other	**24,948**	26,929	29,866
Total	**555,308**	545,099	515,801
Long-term Debt			
Nonconvertible debt (Note 7)	**189,062**	164,728	163,319
Convertible debt (Note 8)	**92,684**	29,068	42,335
Capital lease obligations (Note 9)	**23,077**	26,944	36,070
Total	**304,823**	220,740	241,724
Deferred Taxes on Income (Note 12)	**43,129**	29,031	21,142
Redeemable Preferred Stock (Note 10)			
Cumulative preferred stock, Series B (convertible)	**196**	4,220	4,336
Nonredeemable Preferred Stock (Note 10)			
Cumulative preferred stock, Series A (convertible)	**16,670**	22,009	27,482
Common Stockholder Equity (Note 11)			
Common stock, $2 par-authorized 60,000,000 shares; issued 1982, 18,082,331 shares; 1981, 16,526,709 shares; 1980, 15,566,701 shares	**36,165**	33,054	31,133
Other capital	**96,922**	67,420	44,780
Retained earnings	**405,971**	364,776	327,921
Accumulated translation adjustment (Note 4)	**(3,024)**		
Treasury shares, at cost: 1982, 2,061,923 shares; 1981, 523,146 shares; 1980, 523,146 shares	**(71,361)**	(11,262)	(11,262)
Net	**464,673**	453,988	392,572
Total	**$1,384,799**	$1,275,087	$1,203,057

See Financial Notes.

Statements of Changes in Consolidated Preferred Stocks and Common Stockholder Equity

(in thousands except share amounts)

Years ended March 31, 1982, 1981 and 1980	Preferred Stocks				Common Stockholder Equity						
	Redeemable Series B		Nonredeemable Series A		Common Stock		Treasury				
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Other Capital	Retained Earnings	Accumulated Translation Adjustment
Balances, March 31, 1979	310,887	$10,881	1,269,292	$44,425	14,033,817	$28,068	(500,000)	$(10,650)	$17,324	$287,503	
Purchase of shares							(23,146)	(612)	(27)		
Issuance of shares under employee plans	690	25			384,927	770			4,965		
Conversion of debentures and preferred stocks	(187,696)	(6,570)	(484,091)	(16,943)	1,147,957	2,295			22,518		
Net income										66,778	
Cash dividends											
Prior preferred, $1.6875 per share										(16)	
Series A preferred, $1.80 per share										(1,724)	
Series B preferred, $2.05 per share										(452)	
Common, $1.67 per share										(24,168)	
Balances, March 31, 1980	123,881	4,336	785,201	27,482	15,566,701	31,133	(523,146)	(11,262)	44,780	327,921	
Issuance of shares under employee plans					265,365	532			5,298		
Conversion of debentures and preferred stocks	(3,303)	(116)	(156,362)	(5,473)	694,643	1,389			17,342		
Net income										69,255	
Cash dividends											
Series A preferred, $1.80 per share										(1,225)	
Series B preferred, $2.05 per share										(249)	
Common, $2.00 per share										(30,926)	
Balances, March 31, 1981	120,578	4,220	628,839	22,009	16,526,709	33,054	(523,146)	(11,262)	67,420	364,776	
Purchase of shares							(1,551,787)	(60,346)			
Issuance of shares under employee plans	148	5			297,877	596	1,103	29	7,273		
Inland Chemical Corp. pooling-of-interests					293,360	587			(1,073)	3,469	
Conversion of debentures and preferred stocks	(115,137)	(4,029)	(152,544)	(5,339)	965,244	1,930			23,816		
Other					(859)	(2)	11,907	218	(514)		
Accumulated translation adjustment											
As of April 1, 1981											$ (147)
Translation adjustment for 1982											(2,877)
Net income										73,537	
Cash dividends											
Series A preferred, $1.80 per share										(907)	
Series B preferred, $2.05 per share										(45)	
Common, $2.24 per share										(34,859)	
Balances, March 31, 1982	5,589	$ 196	476,295	$16,670	18,082,331	$36,165	(2,061,923)	$(71,361)	$96,922	$405,971	$(3,024)

See Financial Notes.

Statements of Changes in Consolidated Financial Position

(in thousands)

Years ended March 31	1982	1981	1980
Funds Provided			
After-tax income from continuing operations	**$ 68,634**	$ 60,568	$ 49,508
Depreciation	**33,918**	29,488	26,836
Amortization of goodwill and other intangibles	**4,123**	3,706	3,166
Deferred taxes on income	**14,098**	7,889	491
Equity in undistributed earnings of nonconsolidated companies	**(5,965)**	(110)	(2,222)
Total from continuing operations	**114,808**	101,541	77,779
Discontinued operations	**1,974**	3,359	47,146
Financing			
Capital shares	**26,966**	18,972	7,060
Long-term debt	**122,678**	28,233	17,272
Dispositions of property, plant and equipment	**3,857**	3,211	8,666
Total	**$270,283**	$155,316	$157,923
Funds Applied			
Additions			
Property, plant and equipment	**$ 73,057**	$ 62,608	$ 55,438
Tax benefit leases	**25,826**		
Goodwill and other intangibles	**4,345**	651	2,521
Other investments and assets–net	**4,305**	(5,405)	644
Property, plant and equipment of acquired companies	**10,498**		218
Reduction in long-term debt	**38,595**	49,217	43,482
Cash dividends	**35,811**	32,400	26,360
Purchase of capital shares	**60,346**		1,159
Increase in working capital	**17,500**	15,845	28,101
Total	**$270,283**	$155,316	$157,923
Working Capital Increase by Component			
Cash	**$ 8,846**	$ 533	$ 7,730
Receivables	**17,204**	36,240	44,547
Inventories	**1,788**	8,374	29,145
Accounts and drafts payable	**(36,323)**	(29,367)	(33,744)
Current portion of long-term debt	**16,368**	3,896	(13,403)
Taxes	**11,095**	86	1,766
Other current assets and liabilities	**(1,478)**	(3,917)	(7,940)
Total	**$17,500**	$15,845	$28,101

See Financial Notes.

Financial Notes

1. Significant Accounting Policies

Consolidated Financial Statements include the financial statements of all majority-owned United States and Canadian companies, except those of the homebuilding operations, which are classified as net assets of discontinued operations. All significant intercorporate amounts have been eliminated. Companies combined in poolings-of-interests are included for prior years when the effect of their inclusion is material.

Inventories, primarily merchandise and supplies, are stated at the lower of cost or market. The cost of substantially all inventories is determined on the last-in, first-out (LIFO) method.

Property, Plant and Equipment are stated at cost. Depreciation is provided on the straight-line method at rates designed to distribute the cost of properties over estimated service lives.

Investments in nonconsolidated companies and joint ventures over which the company exercises significant influence in operating and financial matters are included in the financial statements on the equity method representing cost plus its share of undistributed earnings. Equity in pretax earnings of foreign companies is recognized on a calendar year basis and is included in other revenues in the statements of consolidated income; related foreign income taxes are included in taxes on income.

Effective April 1, 1981, financial statements of the company's foreign affiliates are translated into U.S. dollars in accordance with Financial Accounting Standard No. 52. In general, financial statements in foreign currencies are translated at year-end rates for balance sheet items and at average annual rates for income statement items; net translation gains or losses are reported in common stockholder equity.

Pension Costs are determined under the entry age normal actuarial method. Adjustments resulting from plan changes are amortized over 30 years and adjustments resulting from experience gains and losses are amortized over 15 years. Prior service costs are amortized over 40 years. Accruals recommended by independent actuaries are funded.

Tax Benefit Leases. The investment in tax benefit leases of $18,031,000 is included in Other Investments and represents the unamortized cost of tax credits and tax depreciation deductions purchased from others as allowed by the Economic Recovery Act of 1981. The purchase price has been allocated between tax credits and depreciation deductions. Income resulting from the purchase of tax credits is recognized at a constant rate of return on the unrecovered allocated cost. The cost allocated to tax depreciation deductions will be amortized to expense in the periods when tax deferrals exceed the allocated cost.

Earnings Per Common Share. Primary earnings per common share are based on net income, after deducting preferred stock dividends, and the weighted average number of shares of common stock and common share equivalents (dilutive options) outstanding. All convertible securities are assumed to be converted in the computation of fully diluted earnings per common share when the conversion has a dilutive effect.

2. Accounts Receivable

Accounts receivable are shown net of allowances for estimated uncollectible amounts, discounts, returns and other adjustments. The allowances were approximately $11,000,000 at the end of each of the three years.

3. Inventories

(in thousands)	1982	1981	1980
First-in, first-out cost	**$493,391**	$464,508	$429,751
Reduction to LIFO	**86,936**	59,841	33,458
Inventories, principally at last-in, first-out cost	**$406,455**	$404,667	$396,293

4. Foreign Investments

(in thousands)	1982	1981	1980
Subsidiaries			
Latin America	**$11,855**	$10,783	$10,691
Far East	**5,272**	4,717	4,651
Europe	**4,939**	5,554	6,183
Other areas	**4,409**	3,273	4,067
Total	**26,475**	24,327	25,592
Nonsubsidiaries	**9,744**	12,657	11,168
Total	**$36,219**	$36,984	$36,760

Combined summary financial information for foreign subsidiaries follows:

Balance Sheets

(in thousands)	1982	1981	1980
Assets			
Current assets	**$41,697**	$41,634	$44,871
Property, plant and equipment–net of depreciation	**22,869**	23,368	22,357
Other assets	**515**	1,918	2,681
Total	**65,081**	66,920	69,909
Liabilities			
Current liabilities	**28,522**	30,212	33,777
Noncurrent liabilities	**5,637**	6,603	5,662
Minority interests	**4,447**	5,778	4,878
Total	**38,606**	42,593	44,317
Investment in foreign subsidiaries	**$26,475**	$24,327	$25,592

Statements of Income

(in thousands)	1982	1981	1980
Revenues	**$103,590**	$93,023	$95,455
Costs and expenses			
Cost of sales	**71,420**	66,872	64,783
Selling and general expenses	**23,536**	20,671	22,172
Interest	**1,465**	1,428	1,589
Minority interests	**(147)**	(280)	643
Total	**96,274**	88,691	89,187
Equity in pretax earnings	**7,316**	4,332	6,268
Taxes on income	**2,618**	2,649	1,959
Equity in net income	**$ 4,698**	$ 1,683	$ 4,309

Net income also includes $1,753,000 in 1982, $1,211,000 in 1981 and $2,014,000 in 1980 for the company's equity in net income of nonsubsidiary foreign companies.

Effective for the year ended March 31, 1982, the company adopted the foreign currency translation procedures of FASB Statement No. 52. This change increased 1982 income from continuing operations by $1,288,000 and fully diluted earnings per share by $.07 (primary $.08). Prior years have not been restated.

Foreign currency gains included in net income for the year ended March 31, 1982 resulting from transactions and the translation of financial statements of an Argentine affiliate were $3,462,000. Such gains were largely offset by operating losses. Both gains and losses resulted from devaluation of the Argentine peso. Foreign currency losses charged to income were $823,000 in 1981 and $304,000 in 1980.

5. Discontinued Operations

During fiscal 1982, the company decided to commence an orderly divestiture of its homebuilding operations. Results for the current and prior years have been restated to report the net income contribution of the homebuilding operations as discontinued operations.

In addition, the disposition of the commercial and industrial land development assets and the net assets of the company's hospital supply business was completed in fiscal 1980.

The net assets of discontinued homebuilding operations at March 31 were as follows:

(in thousands)	1982	1981	1980
Assets			
Residential land development properties, including construction in progress	**$ 83,775**	$85,347	$77,166
Investments in joint ventures and partnerships–at equity	**6,591**	2,787	598
Other assets–principally notes receivable	**22,590**	8,021	5,827
Total	**112,956**	96,155	83,591
Liabilities			
Secured loans	**16,111**	18,231	17,078
Unsecured loans	**44,424**	27,900	22,250
Accounts payable and accrued liabilities	**12,465**	17,052	17,943
Deferred taxes on income	**5,408**	1,353	29
Total	**78,408**	64,536	57,300
Net assets	**$ 34,548**	$31,619	$26,291

Residential land development properties are stated at the lower of cost or net realizable value. Cost includes property taxes and interest on debt identifiable with the properties and indirect construction costs.

Revenues from discontinued operations were:

(in thousands)	1982	1981	1980
Homebuilding	**$88,867**	$103,226	$144,935
Hospital supply business			57,318
Land development			39,739
Total	**$88,867**	$103,226	$241,992

Income from discontinued operations was:

(in thousands)	1982	1981	1980
Homebuilding			
Operations			
Income before taxes	**$8,953**	$16,480	$17,499
Taxes on income	**4,050**	7,793	8,750
Net	**4,903**	8,687	8,749
Hospital supply business			
Operations			
Income before taxes			297
Taxes on income			141
Net			156
Disposition			
Loss on sale			(5,037)
Taxes on income			(2,480)
Net			(2,557)
Land development, principally disposition of assets			
Income before taxes			16,649
Taxes on income			5,727
Net			10,922
Income from discontinued operations	**$4,903**	$ 8,687	$17,270

6. Short-term Borrowings

At March 31, 1982, the company had agreements with certain banks whereby it could borrow up to $83,000,000 at prime or money market-based interest rates under open lines of credit. In most instances, the company was expected to and has maintained, as compensating balances, an average of 5% of the lines. There were no borrowings outstanding under these lines at March 31, 1982.

7. Nonconvertible Debt

(in thousands)	1982	1981	1980
Notes payable to insurance companies:			
6.05% payable through July 1, 1987	**$ 24,000**	$ 28,800	$ 33,600
6.50% payable through July 1, 1987	**21,000**	25,200	29,400
8.50% payable through December 31, 1981			15,000
8.75% payable through December 31, 1989	**18,200**	20,300	22,400
Notes payable to bank:			
11⅞% payable June 6, 1984	**12,500**	12,500	
11 15/16% payable June 6, 1985	**12,500**	12,500	
Industrial development revenue bonds, 5¼% to 12¾%, payable in varying amounts through August 2000	**16,030**	11,395	
Borrowings, 11½% to 16½%, supported by bank revolving credit agreement	**75,192**	42,350	48,860
Other, 7⅛% to 18⅝%, payable in varying amounts through 2013	**9,640**	11,683	14,059
Total	**$189,062**	$164,728	$163,319

During 1982, the company had outstanding a revolving credit agreement with eight banks whereby the banks guarantee borrowing availability up to $150,000,000 at the prime interest rate or several money market-based rates. The company currently pays a commitment fee of ⅜% on any unused portion of the line. The amount of fees paid was $588,000, $717,000 and $420,000 for 1982, 1981 and 1980 respectively. Compensating balances are not required. The agreement renews automatically each year, except that any bank may terminate its continued participation prior to August 30 of any year; no borrowings from a terminating bank can be initiated after 22½ months from the termination date. Borrowings outstanding 22½ months after termination must be repaid in four equal annual installments beginning July 15 of the following year. At March 31, 1982, there were no borrowings outstanding under the agreement; however, $75,192,000 in bank borrowings, bankers' acceptances and commercial paper supported by the revolving credit agreement have been classified as nonconvertible debt because the company intends to continue such borrowings under this or other long-term loan arrangements. The commercial paper is issued with maturities of 1 to 180 days at interest rates below bank prime rates.

Aggregate annual payments on nonconvertible debt and capitalized lease obligations for the years ending March 31 are:

(in thousands)	Non-convertible Debt	Capital Leases	Total
1983	$ 11,961	$ 3,801	$ 15,762
1984	15,141	3,154	18,295
1985	26,848	1,890	28,738
1986	43,263	1,201	44,464
1987	30,719	1,054	31,773
Later years	73,091	15,778	88,869
Total	$201,023	$26,878	$227,901

8. Convertible Debt

(in thousands)	**1982**	1981	1980
9¾% subordinated debentures	**$80,000**		
6% subordinated debentures	**12,684**	$29,068	$42,335
Total	**$92,684**	$29,068	$42,335

The 9¾% debentures are convertible into common stock at $43.75 per share and are currently redeemable at 109.27% of principal. Beginning in fiscal 1992, an annual sinking fund payment of $4,000,000 is required to retire 70% of the debentures prior to maturity on March 15, 2006.

The 6% debentures (shown net of $4,366,000 in the treasury or held by consolidated subsidiaries in 1982 and 1981, and $6,989,000 in 1980) are convertible into common stock at $30.66 per share and are currently redeemable at 102.4% of principal. An annual sinking fund payment of $2,957,000 is required to retire 84% of the debentures prior to maturity on June 15, 1994. This sinking fund requirement has been fulfilled through June 15, 1991, by debentures in treasury and conversions.

9. Lease Obligations

The company leases various plants, warehouses and offices as well as warehousing, delivery and other equipment under both capital and operating leases. Assets held under capital leases are included in property, plant and equipment as follows:

(in thousands)	**1982**	1981	1980
Land	**$ 1,720**	$ 1,768	$ 1,898
Buildings and amortizable land	**28,820**	28,823	33,710
Machinery and equipment	**20,961**	28,142	38,247
Total	**51,501**	58,733	73,855
Accumulated depreciation and amortization	**24,999**	27,800	32,947
Net	**$26,502**	$30,933	$40,908

As of March 31, 1982, future minimum lease payments and sublease rentals in years ending March 31 are:

(in thousands)	Non-cancellable Operating Leases	Non-cancellable Sublease Rentals	Capital Leases
1983	$17,886	$1,008	$ 6,124
1984	14,139	691	5,048
1985	10,860	671	3,469
1986	7,631	665	2,570
1987	4,857	576	2,334
Later years	24,749	2,257	29,211
Total minimum lease payments	$80,122	$5,868	48,756
Less amounts representing interest			21,878
Present value of minimum lease payments			26,878
Less current portion			3,801
Net			$23,077

Essentially all noncancellable sublease rentals relate to subleases of real estate held under noncancellable operating leases. Rental expense, including executory costs when included in rent, related to operating leases is as follows:

(in thousands)	**1982**	1981	1980
Minimum rentals	**$34,892**	$31,682	$28,296
Contingent rentals	**858**	1,075	1,085
Total	**35,750**	32,757	29,381
Less income from non-cancellable subleases	**1,146**	1,066	1,301
Net	**$34,604**	$31,691	$28,080

Most real property leases contain renewal options and provisions requiring the company to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time except for payments made under certain operating leases of equipment which are partially based on usage. Debt agreements contain provisions relating to maximum ratios of funded debt to capital, including capitalized lease obligations, and to maximum annual rentals payable under operating leases of real property.

10. Preferred Stocks

At March 31, 1982, there were 6,000,000 shares of preferred stock authorized.

Each share of Series A preferred stock is convertible, at the option of the holder, into 1⅝ shares of common stock and is callable at $37.

Each share of Series B preferred stock is convertible, at the option of the holder, into 1.5909 shares of common stock and is callable at $35 per share beginning January 24, 1983. For a three-year period beginning on that date, the holder may require the company to repurchase the shares at $31.50.

Each share of preferred stock has voting rights equivalent to a share of common stock.

11. Common Stockholder Equity

At March 31, 1982, there were 3,025,142 common shares reserved for conversion of the Series A and Series B preferred stocks and the 9¾% and 6% debentures.

Options to purchase common stock at various times through 1992 have been granted at quoted market prices to key employees.

Option information follows:

	1982	1981	1980
Shares			
Options outstanding at beginning of year	**752,728**	825,855	1,073,301
Granted	**121,450**	92,350	48,800
Exercised at prices of $11.00 to $28.13 per share	**(184,521)**	(119,865)	(225,927)
Cancelled	**(26,813)**	(21,837)	(63,944)
Surrendered (stock appreciation rights)	**(11,478)**	(23,775)	(6,375)
Options outstanding at year-end	**651,366**	752,728	825,855
Available for additional grants at end of year	**537,104**	29,751	84,507
Reserved at end of year	**1,188,470**	782,479	910,362
At year-end			
Range of outstanding option prices	**$15⅝-39⅜**	$14⅛-33¼	$12¾-26½
Aggregate option price	**$15,147,000**	$14,635,000	$14,795,000
Aggregate market value	**$20,192,000**	$27,475,000	$19,304,000

The options granted during the years ended March 31, 1982, 1981 and 1980 included 61,000, 28,300 and 33,000 options with stock appreciation rights, whereby the option holders may exercise the option or, at the discretion of the Compensation Committee of the Board of Directors, may receive the appreciation in the stock's value in stock or cash.

Options outstanding at March 31, 1982, included 323,351 which were exercisable. During 1982, 203,295 options became exercisable.

A stock purchase plan grants key employees the right to purchase from the company an aggregate of 400,000 shares of common stock at quoted market prices, payable 10% in cash at date of purchase and a 7% recourse note due in installments over a ten-year period. Under this plan, 228,100 treasury common or previously unissued shares have been purchased of which 5,200 were purchased in 1982, 4,000 in 1981 and 5,000 in 1980. Such shares were pledged for the payment of the related notes and interest.

In connection with the company's profit-sharing investment plan contribution, 116,300, 141,500 and 154,000 common shares were issued in 1982, 1981 and 1980.

Debt agreements contain restrictions pertaining to maintenance of consolidated working capital, purchase of shares of the company's capital stock and payment of dividends. Unrestricted consolidated retained earnings at March 31, 1982 were approximately $62,600,000.

Consolidated retained earnings at March 31, 1982, 1981 and 1980 includes undistributed earnings of nonconsolidated subsidiaries and affiliates as follows:

(in thousands)	**1982**	1981	1980
Subsidiaries			
Foreign	**$15,630**	$14,688	$17,256
Homebuilding	**23,805**	20,815	15,487
Foreign affiliates	**7,690**	6,706	5,186
Total	**$47,125**	$42,209	$37,929

The earnings of foreign subsidiaries and affiliates are not necessarily available for distribution since substantial amounts have been reinvested in foreign properties and working capital and because certain distributions are subject to restrictions.

12. Taxes on Income

(in thousands)	1982	1981	1980
Current			
Federal	**$28,904**	$27,453	$26,132
State and local	**6,723**	5,583	5,350
Foreign	**4,279**	4,203	3,963
Total	**39,906**	37,239	35,445
Deferred and prepaid			
Federal	**13,845**	6,745	592
State	**884**	1,345	37
Total	**14,729**	8,090	629
Total	**$54,635**	$45,329	$36,074

Current federal taxes on income have been reduced $5,318,000 in 1982, $4,160,000 in 1981 and $3,516,000 in 1980 by investment tax credits.

Deferred and prepaid taxes on income result from timing differences between income reported in the financial statements and taxable income. The tax effects of these differences are:

(in thousands)	1982	1981	1980
Depreciation computed at accelerated rates for tax purposes	**$ 5,952**	$4,512	$2,410
Tax depreciation deducted in excess of prior year estimates	**2,158**	4,159	
Tax benefit leases	**7,434**		
Other accruals	**(815)**	(581)	(1,781)
Total	**$14,729**	$8,090	$ 629

Net noncurrent deferred taxes on income are shown separately in the consolidated balance sheets. The net current portion of prepaid and deferred taxes of $7,016,000 at March 31, 1982, $7,646,000 at March 31, 1981 and $7,848,000 at March 31, 1980 is included in prepaid expenses.

The reconciliation between the company's effective tax rate and the statutory Federal income tax rate follows:

	1982	1981	1980
Statutory Federal income tax rate	**46.0%**	46.0%	46.0%
Investment tax credits	**(4.3)**	(3.9)	(4.1)
State and local income taxes	**3.3**	3.5	3.4
Amortization of intangible assets	**1.4**	1.4	1.5
Tax benefit leases	**(1.1)**		
Charitable contributions of appreciated property	**(.7)**	(1.4)	
Capital gains	**(.4)**	(1.1)	(1.3)
Foreign tax provided at less than U.S. statutory rates	**(.2)**	(.3)	(1.1)
Other–net	**.3**	(1.4)	(2.2)
Effective tax rate	**44.3%**	42.8%	42.2%

Income before taxes on income includes foreign income of $9,363,000 in 1982, $7,532,000 in 1981 and $9,532,000 in 1980.

Provision has been made for income taxes on the undistributed earnings of foreign companies based on anticipated repatriations of earnings and dispositions of investments. If all of the undistributed earnings of foreign companies were to be repatriated, $4,700,000 of taxes in excess of amounts previously provided may become payable.

13. Retirement Plans

Retirement plans cover most full-time employees. Employee coverage, exclusive of union plans, includes basic noncontributory pension plans and a supplementary contributory profit-sharing plan available to employees covered under the basic plans. The cost of the company contribution to the profit-sharing plan was $4,797,000 in 1982, $4,299,000 in 1981 and $3,929,000 in 1980.

The table below shows the cost of the company's pension plans for years ended March 31; other data are principally as of the previous December 31, the valuation date of the major plan.

(in thousands)	1982	1981	1980
Cost	**$ 7,276**	$ 7,293	$ 9,314
Actuarial present value of accumulated plan benefits:			
Vested benefits	**$ 98,274**	$ 89,979	$84,875
Nonvested benefits	**5,620**	7,084	8,106
Total	**$103,894**	$ 97,063	$92,981
Net assets available for benefits	**$117,785**	$111,501	$96,482

In fiscal 1981, actuarial changes were made in the assumed future earnings rate of the plan assets and in the assumed salary increases of employees. These changes had the effect of reducing pension plan costs by $1,791,000. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9½% throughout the three-year period. The plans are administered by the company through a master trustee.

14. Other Commitments and Contingent Liabilities

In the ordinary course of business, the company has incurred commitments, including employment contracts, is contingently liable as a guarantor or endorser of notes, leases and contracts, is subject to personal injury and product liability claims and has the usual contractor's obligations for completion of contracts and the usual seller's obligations incurred in connection with sales of realty assets.

The company is also subject to various claims and other pending legal actions and civil and criminal investigations relating to governmental laws and regulations (including environmental laws, class action treble damage antitrust claims for undetermined amounts, asserted tax assessments, and investigations concerning the existence of possible violations of federal or state liquor laws and inaccurate record keeping respecting such matters) and to other matters arising out of the conduct of the company's business.

There is considerable uncertainty inherent in any litigation or governmental proceeding and the evaluation of individual matters is necessarily dependent upon the historical experience of the company and others in similar circumstances and upon the stage of the litigation or proceeding. The company, based upon the opinion of its General Counsel, believes that adequate provision has been made for probable losses. In cases where losses (or the imposition of other sanctions, such as liquor license suspensions or revocations) are possible but not probable, it is the company's belief that their ultimate resolution will not have a material adverse effect on the company's consolidated financial position or the results of its consolidated operations.

15. Segments of Business

Segment information for prior years has been restated to reflect the formation of the Development and International segment. Capital expenditures information has been restated to show expenditures excluding those made through acquisitions.

(in thousands)	1982	1981	1980
Revenues			
Drug & Health Care	**$1,903,661**	$1,677,313	$1,428,660
Foods	**1,029,888**	994,471	901,340
Wine & Spirits	**859,882**	816,885	765,530
Chemical	**628,207**	576,775	505,107
Development and International	**99,113**	87,901	80,543
Total	**$4,520,751**	$4,153,345	$3,681,180
Operating Profit			
Drug & Health Care	**$ 48,207**	$ 39,234	$ 31,258
Foods	**44,418**	45,210	37,182
Wine & Spirits	**32,132**	26,297	23,099
Chemical	**21,416**	21,039	17,110
Development and International	**19,591**	19,108	14,013
Total	**165,764**	150,888	122,662
Interest	**(34,772)**	(28,519)	(29,096)
Corporate	**(7,723)**	(16,472)	(7,984)
Income before taxes on income	**$ 123,269**	$ 105,897	$ 85,582
Identifiable Assets–at year-end			
Drug & Health Care	**$ 440,833**	$ 388,631	$ 344,798
Foods	**344,771**	341,661	324,391
Wine & Spirits	**202,839**	197,174	197,648
Chemical	**150,798**	126,338	127,508
Development and International	**97,952**	89,026	82,981
Total	**1,237,193**	1,142,830	1,077,326
Corporate	**147,606**	132,257	125,731
Total	**$1,384,799**	$1,275,087	$1,203,057
Depreciation and Amortization			
Drug & Health Care	**$ 5,709**	$ 4,294	$ 4,379
Foods	**22,152**	20,045	18,339
Wine & Spirits	**2,587**	2,228	1,696
Chemical	**4,768**	3,831	3,256
Development and International	**1,636**	1,636	1,560
Capital Expenditures			
Drug & Health Care	**$ 18,192**	$ 13,018	$ 8,223
Foods	**33,361**	28,184	27,059
Wine & Spirits	**3,953**	4,050	3,623
Chemical	**12,305**	5,415	8,815
Development and International	**357**	411	705
Equity in Pretax Earnings of Nonconsolidated Companies Included in Other Revenues			
Wine & Spirits	**$ 1,108**	$ 930	$ 1,096
Development and International	**8,022**	5,701	7,238

The company's principal business activities are grouped into five industry segments.

The Drug & Health Care Group includes the only nationwide distributor of ethical and proprietary drugs, toiletries and sundries serving retail and hospital pharmacies. It markets a broad range of computer services to retailers.

The Foods Group is a major supplier of processed water for consumer use in the United States and is a processor and marketer of a number of proprietary grocery shelf items sold under the Mueller's brand. It is also a processor and distributor of dairy products, dehydrated onions and garlic, and lactose and high-protein items derived from whey.

The Wine & Spirits Group is the largest wholesale distributor of wine and spirits in the United States, representing on a franchise basis most U.S. distillers, importers and wineries in one or more markets. In addition, certain brands of alcoholic beverages are imported and marketed throughout the country.

The Chemical Group is the largest independent full-line distributor of chemicals in the United States. It handles a broad line of industrial and specialty chemicals through a national network of sales and distribution facilities. Chemicals are generally purchased in carload and truckload lots and resold in smaller quantities. Some products are purchased in bulk and repackaged. This group also specializes in reclaiming and recycling chemicals, principally solvents.

The Development Group has been created to acquire and manage small, growth-oriented businesses. It includes Armor All Products, Pharmaceutical Card System and the California Culinary Academy. The International group includes the international food and drug operations of the company.

Revenues include net sales, equity in the pretax earnings of nonconsolidated foreign companies, interest, pretax gains on disposition of assets and miscellaneous revenues. Sales between segments are not significant. No material part of the company's business is dependent upon a single or a very few customers.

Operating profit is total revenue less cost of sales and operating expenses. Operating expenses do not include interest and corporate expenses or taxes on income.

Identifiable assets are those assets used in the operations of each segment. Corporate assets are principally cash and cash equivalents, prepaid taxes on income, receivables and investments.

Foreign operations are carried on principally by nonconsolidated foreign companies. Investments in and advances to nonconsolidated foreign companies are included in the identifiable assets of the segments. Equity in pretax earnings of these companies is included in the revenues of the respective segments. The company's foreign operations and export sales, other than those of foreign companies included in the financial statements on the equity method, are not significant.

16. Supplemental Information on Inflation and Changing Prices (unaudited)

Financial statements prepared under generally accepted accounting principles do not attempt to measure the impact of inflation on the operations or financial condition of the company. Reported earnings and amounts shown for assets and liabilities reflect dollars paid at the time the transactions occurred. Increases in costs due to changes in the purchasing power of the dollar and changes in specific prices are not reflected in the financial statements until new assets are acquired. Thus, financial statements prepared on a historical cost basis reflect assets and expenses at yesterday's cost and not at today's value. The difference is considered to be inflation.

In an effort to provide the reader of the financial statements with an indication of the impact of inflation, the Financial Accounting Standards Board requires disclosure of supplementary financial information showing the results of adjustments of the historical data for the effect of changes in general price levels and of changes in specific prices. This attempt to illustrate the economic effect of inflation involves approximations and assumptions that are not normally present in financial reports stated at historical cost. The resulting information should, therefore, be considered an estimate rather than a precise indication of the effect of inflation on the operations and financial position of the company.

The "constant dollar" method of accounting provides earnings information adjusted for the general effect of inflation using the Consumer Price Index for all Urban Consumers. The objective of this method is to restate historical cost dollars into constant dollars of equivalent purchasing power so that current revenues are matched with expenses with both expressed in a common unit of measure.

The "current cost" method of accounting adjusts for specific changes which have been experienced by the company in prices of inventories and property, plant and equipment. These assets are stated at their most recent, or replacement cost rather than at historical cost.

Under both methods of accounting for operations, only cost of sales and depreciation have been adjusted for general inflation or changes in specific prices. Revenues, other operating expenses and taxes on income are considered to reflect average price levels for the year and, therefore, have not been adjusted.

Cost of sales under both methods of accounting is only slightly greater than that shown in the historical financial statements because of the application of the LIFO method of accounting to substantially all of the company's inventories. Depreciation expense computed under both the constant dollar and current cost accounting methods is essentially the same because the rate of inflation experienced by the company during the year is approximately the same as the general rate of inflation as reflected by the 7% increase in the Consumer Price Index from March 1981 to March 1982.

The Financial Accounting Standards Board determined that, for purposes of this supplementary information, taxes on income should be the same as those charged against income from continuing operations in the primary financial statements. This is appropriate since inflation adjustments related to the increased cost of plant and equipment are not deductible under present income tax regulations. The tax regulations do, however, recognize the real cost of inflation on inventories for those companies, like Foremost-McKesson, which use the LIFO method of accounting for financial reporting purposes. The supplementary information indicates that the company's effective tax rate, which is 44% in the historical financial statements, would be more than 50% when results are adjusted for the effect of inflation.

The caption "Gain in purchasing power of net monetary liabilities" shows the net effect of inflation on those assets and liabilities which represent fixed monetary settlement amounts. As the general purchasing power of the dollar declines during inflationary periods, companies with a net monetary liability position sustain an unrealized gain because of their ability to repay the liabilities with dollars of lesser value.

Supplemental financial data adjusted for changing prices for the year ended March 31, 1982 (unaudited)

Statement of Consolidated Income	As Reported (Historical Cost)	Adjusted For General Price Changes (Constant Dollar)	Adjusted For Specific Price Changes (Current Cost)
(in thousands except per share amounts)			
Revenues	$4,520,751	$4,520,751	$4,520,751
Cost of sales, excluding depreciation	3,726,852	3,731,259	3,729,528
Depreciation expense	33,918	47,468	47,123
Other operating expenses, excluding depreciation	601,940	601,940	601,940
Interest expense	34,772	34,772	34,772
Taxes on income	54,635	54,635	54,635
Total	4,452,117	4,470,074	4,467,998
Income after taxes from continuing operations	$ 68,634	50,677	52,753
Gain in purchasing power of net monetary liabilities		24,963	24,963
Total		$ 75,640	$ 77,716
Fully diluted earnings per common share from continuing operations	$3.88	$2.91	$3.02
Purchasing power gain per share		1.34	1.34
Total		$4.25	$4.36
Primary earnings per common share from continuing operations	$4.28	$3.14	$3.28
Purchasing power gain per share		1.58	1.58
Total		$4.72	$4.86
Other Financial Information			
Increase in current cost of inventories and net property, plant and equipment held during the year			$ 60,621
Effect of increase in general price level			58,504
Excess of increase in current cost over increase in general price level			$ 2,117
Net assets–at year-end			
Inventories	$ 406,455	$ 495,159	$ 497,786
Property, plant and equipment	297,016	435,589	445,660
Other assets	681,328	681,328	681,328
Liabilities	(903,260)	(903,260)	(903,260)
Net	$ 481,539	$ 708,816	$ 721,514

Five-Year Summary (unaudited)

(in thousands except per share amounts)	1982	1981	1980	1979	1978
Historical Cost Information					
Revenues	**$4,520,751**	$4,153,345	$3,681,180	$3,262,814	$2,904,612
Income from continuing operations	**68,634**	60,568	49,508	48,698	39,155
Earnings per common share					
Fully diluted	**3.88**	3.37	2.82	2.78	2.30
Primary	**4.28**	3.78	3.25	3.39	2.82
Net assets at year-end	**481,539**	480,217	424,390	378,071	341,575
Dividends per common share	**2.24**	2.00	1.67	1.24	1.075
Market price per common share at year-end	**31.00**	36.50	23.375	18.50	17.625
Constant Dollar Information					
Revenues	**$4,520,751**	$4,546,717	$4,542,525	$4,523,262	$4,369,518
Income from continuing operations	**50,677**	32,534	6,381		
Earnings per common share					
Fully diluted	**2.91**	1.85	.25		
Primary	**3.14**	1.98	.25		
Net assets at year-end	**708,816**	710,392	719,280		
Dividends per common share	**2.24**	2.19	2.06	1.72	1.62
Market price per common share at year-end	**31.00**	39.96	28.84	25.65	26.51
Average consumer price index–fiscal year	**277.4**	253.4	224.8	200.1	184.4
Current Cost Information					
Income from continuing operations	**$ 52,753**	$ 47,796	$ 39,990		
Earnings per common share					
Fully diluted	**3.02**	2.68	2.31		
Primary	**3.28**	2.95	2.56		
Excess of increase in current cost over increase in general price level	**2,117**	(21,274)	(17,003)		
Gain in purchasing power of net monetary liabilities	**24,963**	39,931	64,900		
Net assets at year-end	**721,514**	739,854	760,936		

Responsibility for Financial Statements

Foremost-McKesson, Inc. is responsible for the preparation of its financial statements and for the related financial information included in this report. The company believes that the financial statements have been prepared in conformity with generally accepted accounting principles, that the principles selected are appropriate in the circumstances and have been consistently applied and that the financial statements reflect in all material respects the substance of events and transactions that should be included. The preparation of the financial statements requires numerous estimates and judgments as to the expected effects of incomplete events and transactions.

In meeting its responsibility for the reliability of the financial statements, the company depends on its system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with the appropriate authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Although accounting control procedures are designed to achieve these objectives, it must be recognized that errors or irregularities may nevertheless occur. Also, estimates and judgment are required to assess and balance the relative cost and expected benefits of the controls. The company believes that its accounting controls provide reasonable assurance that errors and irregularities that could be material to the financial statements are prevented or would be detected within a timely period. The system of internal accounting control is augmented and reinforced by an internal audit department.

The Board of Directors pursues its oversight role with respect to the company's financial statements through its audit committee, which is composed entirely of directors who are not officers or employees of the company. The committee may be contacted directly by either the independent auditors or the Director of Internal Audit. The committee meets periodically in private session with both groups and also with management personnel to consider audit results and to discuss internal accounting control, auditing and financial reporting matters. The committee has the responsibility for recommending to the Board of Directors the selection of the company's independent auditors, subject to stockholder approval, for reviewing their independence and for authorizing and approving fees paid to them.

Deloitte Haskins & Sells have been engaged to render an independent professional opinion on the company's accompanying financial statements. Their opinion is based upon numerous procedures (including obtaining an understanding of the company's accounting systems and controls and performing tests and other auditing procedures) believed by the independent auditors to be sufficient to provide reasonable assurance that the company's financial statements are not materially misleading and do not contain material errors.

Opinion of Independent Auditors

Deloitte Haskins & Sells
44 Montgomery Street
San Francisco, California 94104

The Stockholders and Board of Directors
of Foremost-McKesson, Inc.:

We have examined the consolidated balance sheets of Foremost-McKesson, Inc. and subsidiaries as of March 31, 1982, 1981 and 1980 and the related statements of consolidated income, changes in consolidated preferred stocks and common stockholder equity, and changes in consolidated financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at March 31, 1982, 1981 and 1980 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period.

Deloitte Haskins & Sells

May 21, 1982

Foremost-McKesson's Businesses

Corporate Headquarters
Foremost-McKesson, Inc.
One Post Street
San Francisco, California 94104
(415) 983-8300

Foremost-McKesson Chemical Group
San Francisco, California
President: Barry B. Blocker

McKesson Chemical Company
San Francisco, California
Vice President and General Manager: Charles A. Thompson
Full-line distributor of industrial and fine chemicals in less-than-truckload lots to a full range of industrial users.

McKesson Envirosystems Company
San Francisco, California
Vice President and General Manager: W. Don Bain, Jr.
Chemical recycling company that refines spent solvents and markets the recycled product to chemical users.

Foremost-McKesson Development Group
San Francisco, California
President: Roy B. Miner
Identifies, develops and serves as a logical entry point for new businesses which have the potential to make an important contribution to the corporation in the next five to ten years.

Armor All Products
Irvine, California
President: Alan Rypinski
Manufacturer of Armor All Protectant, Cleaner and Ultra-Plate appearance protection products for home and automotive use.

Pharmaceutical Card System
Phoenix, Arizona
President: Donald B. Dahlin
Processor of third-party prescription drug claims; provider of computer-based marketing services for pharmaceutical companies.

California Culinary Academy
San Francisco, California
President: Danielle Carlisle
A school for professional chefs, specializing in the art of French and continental cuisine.

Foremost-McKesson International
San Francisco, California
President: Bernard J. Hargadon, Jr.
Manufacturer/marketer/distributor of dairy, pharmaceutical, health and personal care products in 19 countries.

Foremost-McKesson Drug & Health Care Group
San Francisco, California
President: Kenneth L. Larson

McKesson Drug Company
San Francisco, California
Senior Vice President and General Manager: Rex R. Malson
Distributor of ethical and proprietary pharmaceuticals, health and beauty aids, and sundries to retail drugstores, food stores, mass merchandisers and hospital pharmacies.

Valu-Rite Pharmacies, Inc.
Orange, California
President: Ronald N. Bone
Voluntary chain program for independent and small chain drugstores; provider of advertising/promotional programs, private label products and other services to members.

Skaggs-Stone
South San Francisco, California
President and General Manager: C. Fred Toney
Distributor of general sundry merchandise to variety stores, supermarkets, drugstores and other retailers.

Foremost-McKesson Foods Group
San Francisco, California
President: Norbert W. Markus, Jr.

Foremost Dairy Division
San Francisco, California
Vice President and Division Manager: Donald J. Proctor
Manufacturer/marketer of a full line of dairy products, including milk, ice cream, butter, cheese and yogurt.

Foremost Food Ingredients Division
San Francisco, California
Vice President and Division Manager: Gerald J. Treleven
Processor/manufacturer of lactose and whey products and Gentry dehydrated garlic, onions and chili peppers.

Foremost-McKesson Grocery Products Division
Jersey City, New Jersey
President and General Manager: G. Clinton Merrick
Manufacturer/marketer of Mueller's pasta products.

Foremost-McKesson Water Division
Los Angeles, California
Vice President and Division Manager: Kenneth C. Hicken
Processor/marketer of bottled and machine-vended water under Alhambra, Crystal, Sparkletts and Aqua-Vend brands.

Foremost-McKesson Wine & Spirits Group
New York, New York
President: Raymond R. Herrmann, Jr.

McKesson Wine & Spirits Co.
New York, New York
Executive Vice President: James A. Gillis
Distributor of imported and domestic wines, spirits and beers.

Carlton Importing Company
New York, New York
President: Richard R. Fogarty
Importer/marketer of malt beverage products, including St. Pauli Girl and San Miguel beers.

Galliano International
New York, New York
President: Joseph L. Gorlach
Manufacturer/importer of Liquore Galliano, Amaretto and Sambuca di Galliano; marketer of Galliano products, Mount Gay rum and Mohawk products outside of the U.S.

Mohawk Liqueur Corporation
Detroit, Michigan
Chief Executive Officer and Executive Vice President: Duane Maas
Manufacturer/marketer of Mohawk cordials, vodka, gin and rum; importer/marketer of Martin's V.V.O. and Muirhead Scotches, Chartreuse and Glenmorangie single malt Scotch; contract bottler.

Mosswood Wine Company
San Francisco, California
President: Gerald Asher
Marketer of chateau and estate-quality European and U.S. wines; creator/developer of proprietary brands.

"21" Brands, Inc.
New York, New York
President: John H. Hobbs
Marketer of imported wines, imported and domestic spirits, including Liquore Galliano; Emmets, Ireland's Cream Liqueur; Ballantine's Scotch; Canadian Rich & Rare; Mount Gay rum; Tio Pepe sherry; Folonari and Rosegarden wines.

Foremost-McKesson Property Group
San Francisco, California
President: John A. Ditz

Crocker Homes, Inc.
Dublin, California
President: H. Arthur Nottingham
Builder/developer of residential properties, primarily single family homes in northern California.

Ditz-Crane
Santa Clara, California
President: Robert L. Crane
Builder/developer of residential properties, primarily single family homes in northern California.

Ditz-Crane of Arizona, Inc.
Phoenix, Arizona
President: H. Arthur Nottingham
Builder/developer of residential properties, primarily single family homes in Phoenix, Mesa and Tucson.

Shareholder Information

"800" Telephone Lines Link Shareholders With Foremost-McKesson

To obtain the latest information about Foremost-McKesson and a brief summary of stock market activity, dial toll-free (800) 227-3790. California residents should call (800) 652-1653.

Recorded information, updated twice daily, includes the current price of Foremost-McKesson stock, the Dow Jones Industrial Average and the volume traded on the New York Stock Exchange. The report also includes brief messages from Foremost-McKesson management about business developments, new products and markets and sales and earnings reports. The system also permits callers to leave recorded messages requesting additional information.

Annual Meeting To Be Held July 28 In San Francisco

The annual meeting of Foremost-McKesson, Inc. shareholders will be held at 10:00 a.m. on Wednesday, July 28, 1982, at the Masonic Memorial Auditorium, 1111 California Street, San Francisco. A proxy card and proxy statement will be mailed to all shareholders approximately five weeks before the meeting. Proxy cards should be signed, dated and returned promptly to ensure that all shares are represented at the meeting and voted in accordance with the instructions of their holders. All shareholders are encouraged to attend the annual meeting.

About Your Stock And Records

The common and preferred stocks of Foremost-McKesson, Inc. are listed on the New York and Pacific Stock Exchanges and are quoted in the daily stock tables carried by most newspapers. The ticker symbol for Foremost-McKesson common stock is FOR, and Series A Preferred stock is listed as FOR Pr. The stock table abbreviation for the common stock is ForMK, and for Series A Preferred it is FMK.

Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015, acts as transfer agent, registrar and dividend paying agent for Foremost-McKesson stock and maintains all shareholder records for the corporation.

Dividend Payments Mailed Quarterly

"Shareholder of record" refers to a shareholder who is entitled to receive a dividend on the "payable date" if he or she was listed as a Foremost-McKesson shareholder on the "record date" (approximately 30 days prior to the payable date for common stock and 15 days for preferred stock). Quarterly dividends are mailed with the intent of reaching shareholders of common stock on the first business day of January, April, July and October, and shareholders of preferred stock on the 15th of March, June, September and December. Postal delays may cause actual receipt dates to vary.

Automatic Reinvestment Of Dividends

Foremost-McKesson shareholders may choose to increase their investment in the company by reinvesting dividends from common and preferred stock automatically in additional Foremost-McKesson common shares.

Quarterly dividends of shareholders participating in the Dividend Reinvestment Plan are sent directly to Citibank, N.A. in New York. Citibank purchases the shares at market price, credits shareholder accounts and issues a quarterly statement of account status to each participant. The plan also allows participants to buy additional Foremost-McKesson shares through optional cash payments of up to $3,000 per quarter. All brokerage acquisition expenses are paid by Foremost-McKesson.

For more information, contact Dana T. Iapicca, assistant secretary, Foremost-McKesson Corporate Headquarters.

Lost Checks And Certificates

Lost dividend checks often aren't lost, but are meandering through the postal system trying to catch up with a shareholder who moved and didn't notify the transfer agent.

It's easy to make an address change. On every dividend check, there is a circle which may be punched out to indicate a change of address. In processing cancelled checks, the computer sorts out punched checks to alert the transfer agent to change the records.

Lost certificates may be replaced only after issuance of an indemnity bond, for which a premium of about 3% of the market value of the stock is charged by an insurance company. Shareholders should generally deal directly with their brokers and the transfer agent who maintains shareholder records. However, if a problem arises that they can't resolve, Foremost-McKesson's assistant secretary will be glad to help.

Shareholders Invited To California Culinary Academy

Foremost-McKesson has acquired the California Culinary Academy of San Francisco. Modeled after two Swiss cooking schools, the academy's rigorous 16-month program trains students in French and continental cuisine.

The students prepare and serve meals in a restaurant open to the public for lunch and dinner. Shareholders are invited to visit the restaurant, located at 215 Fremont Street, when in San Francisco. Reservations are necessary and may be obtained by phoning (415) 546-1316.

A New Contact At Foremost-McKesson

Questions about stockholdings, dividends, address changes or lost certificates should be directed to Dana T. Iapicca, new shareholder contact at Foremost-McKesson Corporate Headquarters. She succeeds Joseph Blyskal, assistant secretary for 22 years, who has retired.

Dana brings to Foremost-McKesson several years of paralegal and administrative experience from a San Francisco law firm. To reach her, write to Dana T. Iapicca, assistant secretary, Foremost-McKesson, Inc., One Post Street, San Francisco, CA 94104; or call (415) 983-8367.

Additional Information Available to Shareholders

Responses to questions most frequently asked by Foremost-McKesson shareholders are included in a brochure available by writing to the Corporate Relations Department, Box B, Foremost-McKesson, Inc., One Post Street, San Francisco, CA 94104.

Form 10-K Available on Request

Shareholders may obtain copies of the corporation's Form 10-K annual report to the Securities and Exchange Commission, without charge. Requests for this document should be addressed to the Corporate Relations Department, Box K, Foremost-McKesson, Inc., One Post Street, San Francisco, CA 94104.

Directors and Officers

Board of Directors

George Ditz, Jr.
Retired, former Vice President, Foremost-McKesson, Inc. and former President, Foremost-McKesson Chemical Group
San Francisco, California

Robert R. Dockson
Chairman of the Board and Chief Executive Officer, California Federal Savings & Loan Association, Los Angeles, California

Thomas E. Drohan
President and Chief Executive Officer, Foremost-McKesson, Inc.

Neil E. Harlan
Chairman of the Board of Directors, Foremost-McKesson, Inc.

Raymond R. Herrmann, Jr.
Vice President, Foremost-McKesson, Inc. and President, Foremost-McKesson Wine & Spirits Group

Leslie L. Luttgens
Leader of civic, public service and cultural activities on a community and national basis, San Francisco, California

Roy B. Miner
Vice President, Foremost-McKesson, Inc. and President, Foremost-McKesson Development Group

William W. Morison
Retired, former Chairman of the Board of Directors, President and Chief Executive Officer, Foremost-McKesson, Inc.
San Francisco, California

Joseph R. Rensch
President, Pacific Lighting Corporation
Los Angeles, California

Ezra Solomon
Dean Witter Professor of Finance, Stanford University Graduate School of Business
Stanford, California

J. Paul Sticht
Chairman of the Board and Chief Executive Officer, R. J. Reynolds Industries, Inc.
Winston-Salem, North Carolina

Malcolm Toon
Retired, former U.S. Ambassador to U.S.S.R., Bethesda, Maryland

Eugene B. Walsh
Management Consultant; retired, former Chairman and Chief Executive Officer, Ralphs Grocery Company
Pasadena, California

Directors Emeriti

Schuyler Merritt II
Retired

Herman C. Nolen
Retired, former Chairman of the Board of Directors, McKesson & Robbins, Inc.

Principal Executive Officers

Thomas E. Drohan
President and Chief Executive Officer

Neil E. Harlan
Chairman of the Board of Directors

Group Presidents

Barry B. Blocker
Vice President of the Corporation and President, Foremost-McKesson Chemical Group

John A. Ditz
Vice President of the Corporation and President, Foremost-McKesson Property Group

Raymond R. Herrmann, Jr.
Vice President of the Corporation and President, Foremost-McKesson Wine & Spirits Group

Kenneth L. Larson
Vice President of the Corporation and President, Foremost-McKesson Drug & Health Care Group

Norbert W. Markus, Jr.
Vice President of the Corporation and President, Foremost-McKesson Foods Group

Roy B. Miner
Vice President of the Corporation and President, Foremost-McKesson Development Group

Corporate Staff

H. Eugene Blattman
Vice President and General Manager, Operations Resource Group

James I. Johnston
Vice President, Personnel

Marvin L. Krasnansky
Vice President, Corporate Relations

Nancy A. Miller
Secretary

Alan J. Seelenfreund
Vice President, Finance

Garret A. Scholz
Treasurer

Thomas B. Simone
Controller

Arthur G. Weiner
Vice President, Procurement, Transportation and Engineering

John S. Wheaton
Vice President, Planning and Analysis

Donald J. Yellon
Vice President and General Counsel

Executive Committee

William W. Morison
Chairman

Robert R. Dockson

Thomas E. Drohan

Neil E. Harlan

Joseph R. Rensch

Ezra Solomon

J. Paul Sticht

Audit Committee

Eugene B. Walsh
Chairman

Joseph R. Rensch

Ezra Solomon

Malcolm Toon

Compensation Committee

Robert R. Dockson
Chairman

Leslie L. Luttgens

J. Paul Sticht

Public Policy Committee

Leslie L. Luttgens
Chairwoman

William W. Morison

Malcolm Toon

Eugene B. Walsh

Contributions Committee

Marvin L. Krasnansky
Chairman

James S. Cohune

James I. Johnston

David L. Ringler

Employee Benefits Committee

Alan J. Seelenfreund
Chairman

Barry B. Blocker

James I. Johnston

Kenneth L. Larson

Norbert W. Markus, Jr.

Donald J. Yellon

122.25(a)(19)

<u>McKesson Chemical Company</u>

Topographic Maps

(40 CFR Sec. 122.25(a)(19))

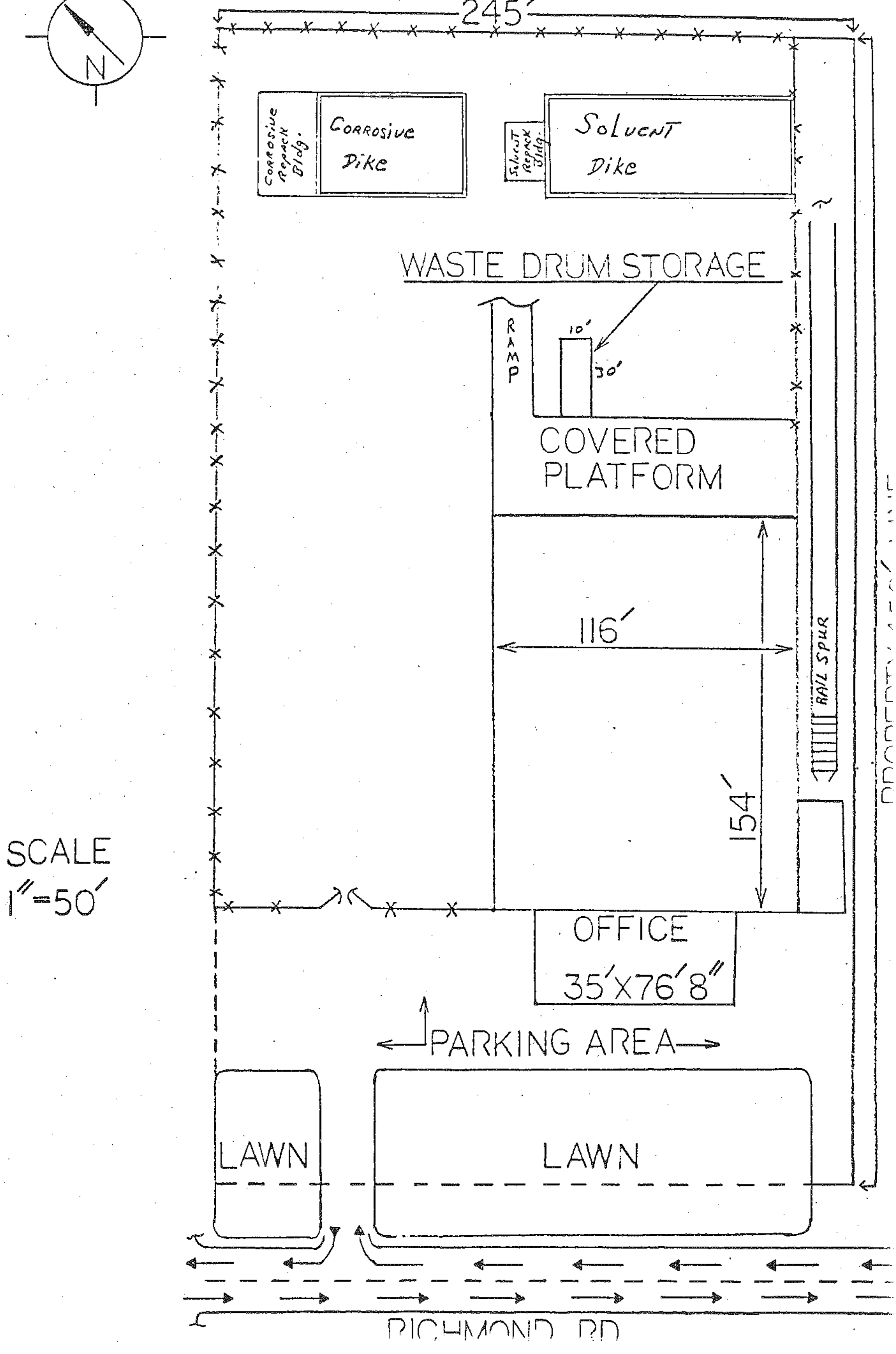
It is hoped, in fulfillment of 40 CFR Sec. 122.25(a)(19) that the following maps will suffice in identifying the several aspects of the physical location and layout of the simple transfer station status being requested for the McKesson Bedford Heights facility:

1. The U.S.G.S. 7.5 minute topographic map, an original of which was included in the Part A filed with Region V on September 9, 1981. A copy of the relevant section is included in the copy of the original Part A located in the front part of this Part B application.

2. In order to identify the neighborhood of the McKesson facility at the scale proscribed in 40 CFR, a section of the U.S.G.S. map has been enlarged to show the necessary detail at a scale of 1 inch to 200 feet; the map follows this page.

3. An updated version of the plot plan required under Part A, defining the property lines, loading and unloading areas and general layout.

McKESSON CHEMICAL Co. CLEVELAND, OHIO



Prepared by Chris Steele

122.25(a)(20)

McKesson Chemical Company

Other Federal Laws

(40 CFR Sec. 122.25(a)(20), 122.12)

Information will be provided in accordance with the requirements of 40 CFR 122.25(a)(20) at the request of the Environmental Protection Agency Regional office. At this time, we believe this facility is in compliance with the following Federal laws:

Wild and Scenic Rivers Act

National Historic Preservation Act of 1966

Endangered Species Act

Coastal Zone Management Act

Fish and Wildlife Coordination Act

122.25(b)(1)

McKesson Chemical Company

Containers Utilized Holding Free Liquids

(40 CFR Sec. 122.25(b)(i); 264.171 - 264.175)

Hazardous waste materials stored at this McKesson Chemical Company facility will be received from outside generators who employ McKesson Envirosystems' recycling capabilities located at another site - especially that at New Castle, Kentucky. The McKesson Branch is used as an accumulation and transfer point of drummed materials received from generators in small lots, and reshipped in economic truckloads to the recycling location.

The materials typically handled by McKesson Chemical Company and McKesson Envirosystems fall into the halogenated and non-halogenated chemical families.

The containers which are utilized by customers to ship spent material to our facility are of a 55 gallon capacity or less. Containers typically utilized are constructed of steel, meeting DOT specification 17E. The customer is required for the commodity as set forth by the Department of Transportation in 49 CFR 172.101.

Reuse of containers for waste materials by customers is allowed as authorized by the Department of Transportation, 49 CFR 173.28 "Reuse of Packagings (Containers)". McKesson Chemical Company does request of its customers that if they are reusing containers, they place spent material back into a container which held the same virgin material. This practice is encouraged to ensure that there is no risk of incompatible materials being introduced into the container which might result in container failure, or cause cross-contamination which may result in problems relating to the reclamation of the material.

While the containers of waste materials are in storage at this facility, all closures are maintained in a secure manner. No treatment or disposal of waste materials is undertaken at this location. Contents of a container of material would be transferred if a leaking container were discovered, in which case the material would be transferred to another container meeting appropriate container specifications in order to avoid further release of the material. Such a transfer of leaking container shall be accomplished as set forth in written procedures on hand at the facility, and under the direct supervision of the Emergency Coordinator.

McKesson Chemical Company does not currently manage containers without free liquids.

This facility of McKesson Chemical Company does not utilized any tanks for hazardous waste storage.

This facility of McKesson Chemical Company does not have any waste piles of material, with our without free liquids.

This facility of McKesson Chemical Company does not utilize any type of surface impoundment as a means of handling hazardous waste.

This facility of McKesson Chemical Company does not utilize any type of incinerators as a means of handling hazardous waste.

<u>McKesson Chemical Company</u>

Container Management Practices

(40 CFR Sec. 264.171 - 264.175 & 122.25(b)(1))

Once materials have been approved for handling by this McKesson Chemical Company facility, in accordance with the procedure listed in items 1 though 5 contained in the "Waste Analysis and Verification Procedures" (see Section 122.25(a)(3), the facility may then proceed to accept these specific materials.

A number of measures are taken by facility personnel to ensure proper management of containers of waste materials. Specific procedures and forms utilized pertaining to container management are referred to later in this section.

Container management begins by McKesson Chemical Company employees even prior to receipt of drummed materials at the facility. Customers wishing to utilize our services for handling their waste streams are informed of the requirement of utilizing proper DOT authorized containers as outlined in the previous section, "Containers Utilized Holding Free Liquids", if they are not previously aware of such requirements.

Waste materials which have been approved internally for handling may be accepted by a Company driver only if they have received a pick-up notice from the facility office. The facility office, even prior to issuing such notice, requires the customer (generator) to provide a photocopy of their manifest with the pertinent information filled in. This information would include all items pertaining to generator, transporter, TS&D, material description, ID numbers, etc. Some items such as number of drums/ packages, dates, signatures, and weights are allowed to be left uncompleted until the actual day of pick-up of the material. A copy of the customers original manifest is provided to the driver along with the pick-up notice.

This mode of operation is followed for a number of reasons. First, it allows personnel an opportunity to review the generator's manifest for compliance and proper information. Secondly, it allows our office personnel a chance to verify that a Spent Material/Waste Product Survey form and supporting data is on file at the facility to comply with such requirements, and to verify that internal approvals have been given to accept a given waste item. Lastly, it gives our drivers making pick-ups of such materials more accurate information on what to be looking for due to the fact that our office personnel have screened and advised the generator of any problems which may have been present.

Once a pick-up of material has been scheduled into a particular driver's routing, further assurances and checks must be undertaken by the driver upon arrival. At the time of arrival, the driver must be presented with the original manifest by the generator's shipping personnel. The McKesson driver compares the photocopy of the generator's manifest, which was included with the pick-up notice, to the original presented. All items on the original should be complete with no modifications being allowed when compared with the photocopy sent to the McKesson Chemical Company office, other than quantity listing, dates, signatures, weights, etc. Any alterations such as an addition of different materials, or questionable variations, shall result in the driver's refusing acceptance of the material, unless such modifications are approved by phone conversation with McKesson Chemical management at the storage facility.

Once the manifest(s) are checked and approved by our driver, the containers are checked for compliance before being loaded onto Company vehicles. McKesson Chemical Company encourages generators to utilize Labelmasters, Hazardous

Waste Label, style WM-6, which complies with all requirements of 40 CFR 262.32. Other labels are allowed to be utilized by the generator as long as we are certain all appropriate information is contained. All Department of Transportation regulations pertaining to labelling and marking contained in 49 CFR 172 must also be adhered to.

The appended checklist entitled "Hazardous Waste Pick-up Checklist" has been developed for use in training of drivers for picking up of waste materials from customers. This form is used primarily for training purposes, but in some instances is utilized by new and inexperienced drivers until a comfort level of knowing what items must be reviewed in accepting a waste shipment is attained.

Upon return of the McKesson Chemical Company truck having picked up the waste material from the generator to the storage site, McKesson warehouse personnel unload the material and follow the appended "Container Receiving and Maintenance Procedure". This procedure pertains strictly to the warehouse personnel which will be responsible for physical verification, off-loading, preparation and final placement in the designated storage area.

In addition to the warehouse personnel procedures, the activities outlined in "RCRA Compliance - Administrative" are undertaken. This procedure bulletin, specifically section VI through and including section VIII, describes the internal paper flow and controls exercised to provide the necessary information and data necessary to properly manage and account for all waste material received at this facility.

Containers holding waste are maintained in a closed condition while being stored at this facility. Due to the fact that this facility functions as only an accumulation and transfer point, no opening of containers is required unless a leaking container were found and transfer to another drum were required to alleviate an unsafe condition. Procedures are in place for such occurrences and shall be undertaken under management supervision with such incidents being noted and documented in the appropriate logs.

Waste containers while in storage at a McKesson Chemical Company facility such as the one for which this application is prepared for, are subject to a weekly inspection for specific defects as outlined in the "In House Container Inspection Checklist". Once the container inspection has been conducted, such inspection, as are all other inspections which are conducted, are recorded in the facility "Inspection Log".

All containers stored at this facility will be held in the designated secondary containment area which is detailed in the following section.

McKesson Chemical Company

Secondary Containment System Design and Operation

(40 CFR Sec. 122.25(b)(1))

All 55 gallon steel containers which will be utilized to store off-site generators' waste materials at a McKesson Chemical Company storage facility will be held pending reshipment in a designated secondary containment area.

The active outside storage area of the facility as shown in the Part A plot plan (revised from the original version submitted to Region V dated November 18, 1980) consists of a concrete paved area approximately 45,000 square feet in size to the West and North of the warehouse. The yard area is concrete at least six inches thick.

The waste storage containment area is planned to be a bermed rectangle 9 inches high, 10 feet by 30 feet. It will be located at right angles to the warehouse wall, about 15 feet from the ramp — providing forklift access from the warehouse to the yard. The base of the bermed area is of concrete with a compressive strength of at least 3000 psi. The 9 inch berm is also concrete. The heaviest drum of waste material to be handled at this facility would not exceed 700 pounds; maximum load on the concrete surface would be four such drums stacked two-high. The rectangular design of the containment area permits a double row of six pallets each. A permanent layer of pallets will be placed inside the rectangle. Enough space is available on both long sides of the rectangle (30 feet) so that pallets of drums of waste material can easily be placed onto or taken off the permanent pallet layer over the berm by conventional forklift maneuvering. This arrangement of containers also facilitates inspection of individual drums for any leakage. The concrete base and its junction with the berm or integral and no leakage outside the containment area can occur.

This secondary containment area can contain 1683 gallons of waste liquid at capacity calculated as follows:

30 feet X 10 feet X 9 inches = 225 cubic feet

1 cubic foot = 7.48 gallons

225 cubic feet X 7.48 = 1683 gallons

The anticipated maximum number of 55 gallon drums of material to be stored within the 10 foot by 30 foot storage areas at any one time is 110. Given a minimum outage in a given drum of 1 gallon, at the maximum anticipated storage quantity of drums, a total of 5940 gallons of material would be present. Utilizing the required 10% containment ratio of the total volume of the maximum number of containers of material stored, the concrete bermed containment area would be required to hold 594 gallons.

The difference between the 1683 and 594 gallon figure (1089 gallons) is considered sufficient to provide for substantial rainfall (or melted snow) in addition to the required allowance for drum leakage. Statistics provided by the Soil Conservation Service of the U.S. Department of Agriculture for this part of Ohio indicate a 100-year, 24-hour rainfall to be no more than 5 inches. This translates in a 300 square foot area to be 125 cubic feet, or 935 gallons. The total of 594 gallons (potential leak) and 935 gallons (100-year incident) is well within the capacity of the projected bermed containment area.

Should any waste material leakage from drum(s) be present in the containment berm area, a sample will be drawn and taken to a laboratory for analysis if the source of the contamination is not obvious. All released liquid present in the bermed area will be collected and placed into drums by use of a portable pump. Logging and necessary reports as warranted by the nature and severity of any such incident will be made to the appropriate Company personnel and Government agencies.

Since all containers while in storage remain on a double layer of wood pallets, contact of the drums with any accumulated liquid inside the bermed area is impossible.

This facility of McKesson is compact, and the bermed secondary containment area will be so located that it is under constant scrutiny. Certainly the level of any accumulated precipitation will be checked promptly as such weather conditions occur, recognizing the need to prevent overflow. If the appearance of any such accumulation raises suspicion that it might be contaminated, it will be sampled and tested either at a local testing laboratory or a McKesson laboratory before it is discharged. The accumulated liquid is to be emptied promptly once any significant level of liquid is reached, recognizing the need to maintain the contained area as empty as possible in case of a spill. An emptying procedure that has proved satisfactory at other McKesson locations is to locate a manually-operated valve through the narrow dimension of the bermed rectangle. A sample can be drawn through this outlet and inspected for odor, cloudiness, or an insoluble layer of liquid — all signifying possible contamination — prior to release to the sewer.

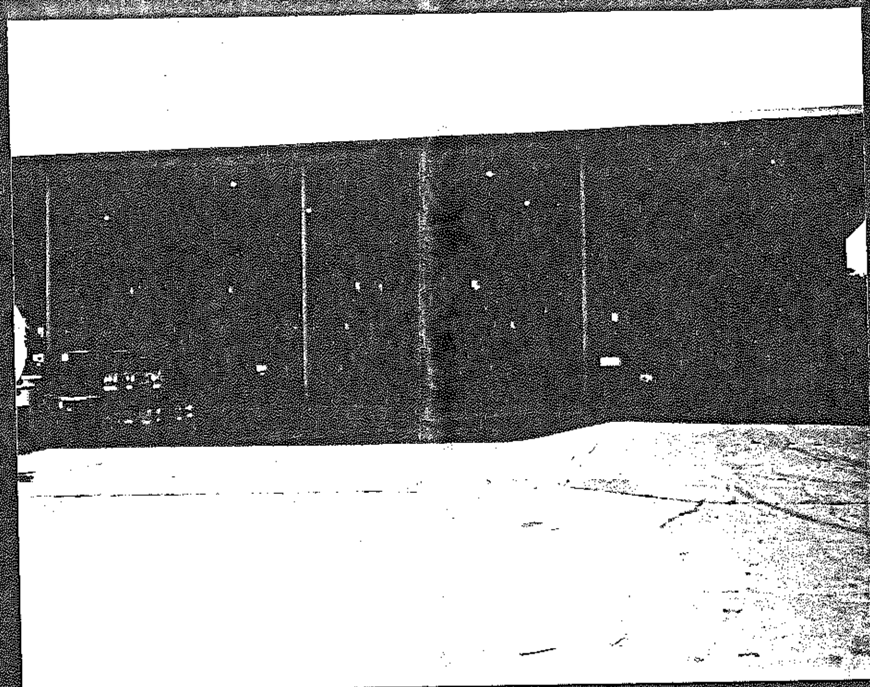
In order to facilitate taking any samples necessary, as well as to insure maximum drainage of the containment area, a sump will be installed in the lowest point within the berm. The branch will have in its possession an appropriate pump, available at all times.

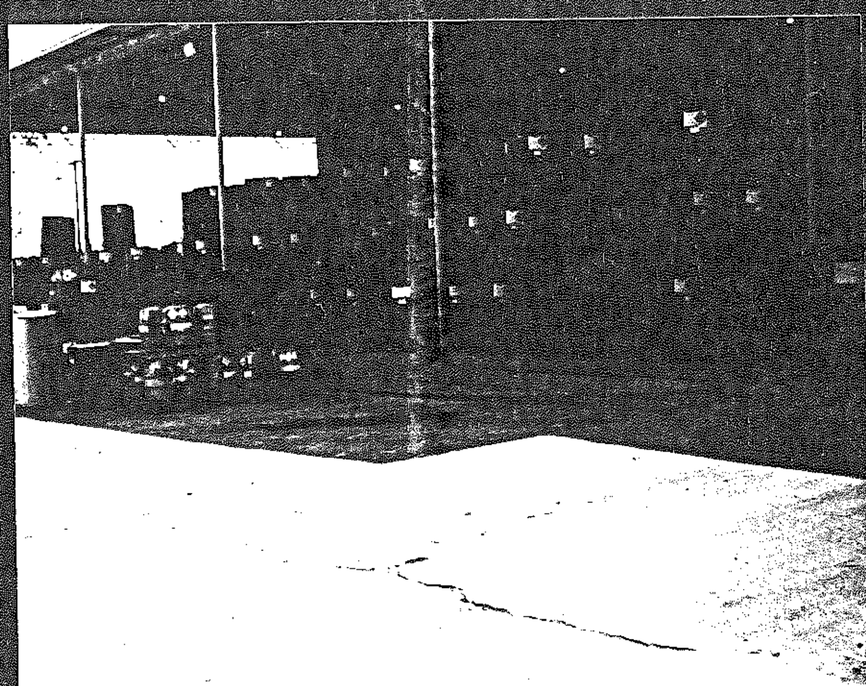
Concrete is acknowledged to be resistant to all neutral organic solvents, both halogenated and non-halogenated. This has been verified in recent discussions with McKesson's largest vendor of such products. As a matter of fact, McKesson over the past few years has steadily replaced asphalt paving with concrete in its regular yard storage areas (and has installed concrete in all new yard areas) because of concrete's resistance to organic solvents compared to that of bituminous materials. An unlikely problem can be envisioned in the sense that an aged halogenated solvent containing water (in the absence of the inhibitors normally added to such solvents) could generate Hydrochloric Acid which can attack concrete, but any significant or perhaps even observable deterioration would require a substantial time period (months). This situation would not be expected to arise at a waste storage area such as is being considered in these pages because of the short time (days) any container of spent solvent would be expected to remain at the branch and the constant inspection of the integrity of the secondary containment area. Morever, a sufficient acidity to be considered corrosive (less than pH of 2 as defined in 40 CFR 261.22) would be caught at the time of the submission of the generator's analytical data and McKesson's Spent Material/Waste Product Survey Form which calls for the pH of the proferred material (see attached). It is to McKesson's advantage not to accept corrosive materials for reclaiming because of potential damage to its processing equipment.

Most, if not all, the halogenated and non-halogenated solvents McKesson will be handling as spent streams are controlled; as such, the solvents are either purchased from vendors (Dow, Union Carbide, PPG, Monsanto) or packaged at a McKesson facility in containers (usually 55 - gallon drums) approved by the U.S. Department of Transportation for that particular solvent. McKesson has handled these solvents both as virgin material and as hazardous wastes in these drums under similar conditions for years with no problem.

McKesson Chemical Company
Bedford Heights (Cleveland), Ohio Branch

Proposed location of drums of spent solvent.





McKesson Chemical Company

Ground Water Monitoring Systems

The requirements for ground water monitoring are not applicable to a storage facility such as this branch of McKesson Chemical Company, which stores only containers of material which are destined for ultimate recycling.

HAZARDOUS WASTE PICK-UP CHECKLIST

I. Manifest

		YES	NO
1)	Manifest Document Number	___	___
2)	Generator Name, Address, Phone Number	___	___
3)	Federal EPA Identification Number (Small Generator Exemption)	___	___
4)	McKesson Chemical Listed as Transporter (Showing McKesson Branch EPA Identification No.) IF MATERIAL IS BEING TAKEN BACK TO MCKESSON LOCATION THEN:	___	___
5) a.	McKesson Chemical listed as Designated T.S.D.F. (Showing McKesson Branch EPA Identification No.) IF MATERIAL IS BEING TAKEN DIRECTLY TO ANOTHER T.S.D.F. THEN:	___	___
5) b.	T.S.D.F. Name, Address, Phone, and EPA Identification Number	___	___
6)	Federal EPA Waste Code Number	___	___
7)	Proper Shipping Name NOTE: IF MATERIAL IS SHOWN AS A N.O.S. SHIPPING NAME (i.e. WASTE FLAMMABLE LIQUID N.O.S.) THEN IT MUST BE FOLLOWED BY A DESCRIPTION OF THOSE CONSTITUENTS WHICH COMPRISE THE HAZARD (i.e. WASTE FLAMMABLE LIQUID N.O.S. - ACETONE/TOLUOL MIXTURE)	___	___
8)	Total Quantity of Waste by Weight	___	___
9)	Number and Type of Containers	___	___
10)	Required Certification Statement on Manifest	___	___
11)	Generator's Signature	___	___

ADDITIONAL STATE REQUIREMENTS

HAZARDOUS WASTE PICK UP CHECKLIST

II.	Packaging	YES	NO
1)	Container is sealed with no apparent leaks.	___	___
2)	Proper DOT shipping name on container.	___	___
3)	"WASTE" precedes proper DOT shipping name.	___	___
4)	Generator's name and address on container.	___	___
5)	Manifest number on container.	___	___
6)	Applicable DOT Hazardous Warning Label.	___	___
7)	Date accumulation began.	___	___

ADDITIONAL STATE REQUIREMENTS

CONTAINER RECEIVING AND MAINTENANCE PROCEDURE

When a shipment of hazardous waste is being received by our branch, the following procedure will be followed:

Receiving tickets must be issued upon receipt. In addition to the normal information required on the receiving ticket, be sure to indicate:

1. "Hazardous Waste Material".
2. The hazardous waste manifest number.

The receiving clerk will be presented with a minimum of three copies of the Hazardous Waste Manifest. The receiving clerk will:

1. Verify that all required information is included on the manifest.
2. Verify that all items are received and initial each item on the manifest.
3. Enter the date received and the receiving ticket number in the identification section for the TSDF.
4. If all items are in order, sign the manifest in the space provided for the TSDF.
5. Any discrepancies should be brought to the transporter and Operations Manager's attention. If the discrepancy cannot be resolved, the load is to be refused.
6. Return a signed copy to the transporter (other than McKesson).
7. Attach white and yellow copies of the receiving ticket to the TSDF copy.
8. Turn in all manifest copies and attached receiving ticket to the office at the end of each work day.

Immediately stencil the receiving ticket number on each drum.

Physically check all bungs and openings to insure tightness.

Inspect each drum for leaks, bulges, extreme corrosion;
NOTE: If any deficiencies are found, effect container transfer procedure.

Remove to storage location in accordance with McKesson Compatability Storage program.

ALL containers are now subject to weekly inspections.

IN HOUSE CONTAINER INSPECTION CHECKLIST

	YES	NO	RECOMMENDATION
A. Location			
1) Waste materials properly segregated according to McKesson compatibility storage program.	___	___	___________
2) Ignitables (flammables, combustables) located 50 ft. from property lines.	___	___	___________
3) Aisles provided for emergency access.	___	___	___________
B. Container Condition			
1) All containers sealed.	___	___	___________
2) Any leaking containers.	___	___	___________
3) Any containers swollen or bulged.	___	___	___________
4) Any containers concaved due to vacuum build up.	___	___	___________
5) Any containers with extreme corrosion.	___	___	___________
6) All containers properly labeled and identified.	___	___	___________
7) All containers have lot number.	___	___	___________
8) All containers compatible with products stored in them.	___	___	___________

INSPECTOR____________________DATE____________

I have reviewed this report and certify all storage is in satisfactory condition.

SUPERVISOR____________________DATE____________

Recommended Action Codes.

A - Effect McKesson compatibility program.
B - Effect container receiving maintenance procedure.
C - Effect container transfer procedure.
D - Effect spill control procedure.

I CERTIFY THAT THE ABOVE RECOMMENDED ACTION HAS BEEN TAKEN ON:

DATE________________STORAGE IS NOW SATISFACTORY.

SUPERVISOR____________________DATE____________

INSPECTION LOG FORM

ITEM INSPECTED	DATE AND TIME OF INSPECTION	INSPECTOR	ANY REMEDIAL ACTION NECESSARY	SUPERVISOR SIGNATURE

NOTE: ANY INSPECTION FORM THAT HAS INDICATED REMEDIAL ACTION SHOULD BE TAKEN, MUST BE MAINTAINED WITH THIS LOG FOR A MINIMUM OF THREE YEARS.

RCRA COMPLIANCE - ADMINISTRATIVE

I. Purpose

To provide control of all federally required forms relative to the receipt, storage, and transfer of hazardous waste as defined by the Resource Conservation and Recovery Act (RCRA). Also, to facilitate accumulation of data for annual filing requirements.

II. Forms

Hazardous Waste Manifests - Due to the fact that there is not a federal manifest form, the branch should use the appropriate state form if such a form is manditory in a given state. As late as November 15, 1980, we received word from the EPA Region 5 office, that those states presently under a manifest system, the state form may be used provided it contains all of the following information contained in Sec. 262.21 of the May 19, 1980 register:

(1) Manifest document number
(2) The generator's name, mailing address, telephone number, and EPA identification number (Federal in addition to state numbers).
(3) The name and EPA identification number of each transporter.
(4) The name, address and EPA identification number of the designated facility and an alternate facility, if any.
(5) The description of the waste(s), (e.g. proper shipping name, etc.) required by regulations of the U.S. Department of Transportation in 49CFR 172.101, 172.202, and 172.203.
(6) The total quantity of each hazardous waste by units of weight or volume, and the type and number of containers as loaded into or onto the transport vehicle.
(7) The following certification must appear on the manifest: "This is to certify that the above named materials are properly classified, described, packaged, marked and labeled and are in proper condition for transportation according to the applicable regulations of the Department of Transportation and the EPA."

If your state is under a manifest system presently, you must use that state form and make any necessary modifications to meet the above standards. If a state form is so inadequate as to make modification inappropriate, you will be required to double manifest using the state form in addition to a complying form such as the Labelmaster F-50 form. A hazardous waste manifest must accompany all movements of hazardous waste to, from, and between McKesson locations.

III. General

The concepts of this procedure are based on inventory management methods. An inventory subsystem for hazardous waste requiring its own hazardous waste manifest, filing, follow-up, and retention schedule will be necessary to provide adequate control.

IV. Registration

All locations that generate, receive, store, or ship hazardous waste must be registered with the EPA. An EPA I.D. number will be issued for each location. Regional and Home Office have filed the appropriate forms necessary to register your branch under the federal program. Again, the branch should be aware of any state EPA requirements which will be necessary to comply with.

V. Definition

Hazardous Waste Materials have been identified by the EPA in a booklet entitled "Identification and Listing of Hazardous Waste Materials" (EPA 8700-12). A copy of this booklet was distributed on August 18, 1980 by George Butter to all branch managers.

McKesson Chemical may become involved in the handling of hazardous waste in any of the following manners:

Generator/Shipper - 1. Material damaged, spilled, or residual from branch operations such as repack or material movement that must be disposed of. 2. Accumulation of sludge from customers that must be shipped to a disposal site or to a recycling plant.

Transporter - Hauling hazardous waste on McKesson owned, leased, or rented vehicles.

TSDF - Treatment, Storage, or Disposal Facility. Whenever hazardous waste is stored or accumulated at a McKesson location (Usually for shipment to a recycling center), we are acting as a storage facility.

VI. Receipt of Hazardous Waste

A. Source - McKesson Customers.

B. Reason - Recycling or disposal.

C. Documentation - Hazardous waste must be accompanied by a hazardous waste manifest which includes the following information (See Exhibit I):

1. Manifest document number.
2. Shipper EPA I.D. number.
3 Carrier name.
4. Carrier EPA I.D. number.
5. Generator/Shipper information:
   a. EPA I.D. number
   b. Name, address, and phone number.
   c. Date shipped.
6. Transporter information:
   a. Same as 5a., b., c.
   b. If Generator/Shipper also is the Transporter, this line still must be completed.
7. TSDF (McKesson Chemical):
   a. Same as 5a., b., c.
8. Number of units and container type.
9. Identification of the waste as a hazardous material (HM) if applicable.
10. EPA Hazardous Waste I.D. number for each item. Obtainable in the "Identification and Listing of Hazardous Wastes" (EPA 8700-12).
11. Proper shipping name and class per DOT publication 172.101. When shipping a blended material which carries a N.O.S. shipping name, the hazardous components of said blend should be listed after the shipping name.

12. Per unit weight.
13. Total weight for each item.
14. The generator signature and date. The manifest must be hand signed. Facsimile signatures cannot be accepted.
15. All transporter signatures and date. No facsimile signatures. If a generator is also the transporter, he must sign as both.
16. TSDF signatures must be signed by McKesson receiving clerks and dated.

Except for signature requirements, all of the above must be provided by the generator.

NOTE: A McKesson driver should not pick up any sludge or other waste unless he has a pick up notice. It becomes extremely important for our truck drivers to be aware of the necessity for a manifest to accompany H/W shipments, and how a properly prepared manifest should appear . If the above mentioned items are not present or are not prepared properly, our drivers must refuse shipment. Our shipping receiving personnel should be aware of the same requirements in the event a customer brings sludge in on his truck to our location, and again, if any items are absent as outlined above, the shipment should be refused.

D. Receiving tickets must be issued upon receipt. In addition to the normal information required on the receiving ticket, be sure to indicate:

1. "Hazardous Waste Material".
2. The hazardous waste manifest number.
3. The receiving ticket number will be used as the lot number for future reference and will be stenciled on each drum received.

The white and yellow copies of the receiving ticket will be sent to the office with the Hazardous Waste Manifest.

E. Hazardous Waste Manifest Routing

1. The receiving clerk will be presented with a minimum of three copies of the Hazardous Waste Manifest. The receiving clerk will:
    a. Verify that all required information is included on the manifest (Sec. C).

b. Verify that all items are received and initial each item on the manifest.

c. Enter the date received and the receiving ticket number in the identification section for the TSDF.

d. If all items are in order, sign the manifest in the space provided for the TSDF.

e. Any discrepancies should be brought to the transporter and Operations Manager's attention. If the discrepancy cannot be resolved, the load is to be refused.

f. Return a signed copy to the transporter (other than McKesson).

g. Attach white and yellow copies of the receiving ticket to the TSDF copy.

h. Turn in all manifest copies and attached receiving ticket to the office at the end of each work day.

2. The inventory clerk (or other individual designated by the branch administrative manager) will be responsible for the following:

   a. Upon receipt of hazardous waste manifests from warehouse personnel, review manifests to insure proper completion including hand written signatures and cross referencing of receiving ticket numbers on manifests and manifest numbers on receiving tickets.

   b. Return the original hazardous waste manifest to the generator. This should be done on a daily basis.

   c. Detach and submit the white copy of receiving ticket to accounting.

   d. Maintain a "pending shipment" file for the TSDF manifest copy and attached copy of receiving ticket. This pending file will be all manifests covering sludge in stock (from customers) awaiting shipment to recycling facility

   e. Maintain a perpetual inventory card for every type of hazardous waste material received. These cards will be maintained separately from all other inventory cards.

A seperate card should be kept for each type of product waste stream. The inventory card should show the following:

1. Date
2. Lot Number
3. Manifest number received or shipped on
4. Customer name received from or location shipped to
5. Units received or shipped
6. Balance

VII. Shipment of Hazardous Waste

Shipments of hazardous waste are to be determined by the branch administrative manager/assistant or designee. Under NO circumstances can a lot be split. Review of the TSDF manifest copies in the "pending shipment" file should be an integral part in determining shipments.

A. Manifest Preparation (Labelmaster F-50 or appropriate state manifest form):

1. Review Section VI-C and Exhibit I. McKesson must supply the same basic information on shipments to the recycling center that customers provided on their manifests.
2. Accumulate the TSDF manifest copies from the "pending shipment" file that will comprise the shipment.
3. Complete the manifest:
   a. Manifest Document Number (Item -1). Most state forms will have a preprinted number sequence already on the manifest form. If you should happen to be utilizing a form which is not prenumbered, you are to use your SDM number preceeded by your branch location code number and the initials HWM. For example: 534 HWM000. You may want to designate in one column of your ledger for SDM numbers, the initials HW to designate those numbers used as a manifest number, if again your state form is not pre-printed.
   b. 12 digit EPA I.D. numbers must be obtained in advance for items 4, 6, and 7. Maintenance of an EPA I.D. number file for customers, transporters, and TSDF's will facilitate future shipments.

c. Waste Description and Classification (Item 11) will be available directly from the TSDF manifest copies being used to put the shipment together. The word "Waste" must preceed the description. Immediately below the description, cross reference applicable lot numbers and the number of containers from each lot. If more space is needed, use the comment section.

d. Unit weight and total quantity should be stated in pounds.

e. "Placards Tendered", item 17, must be completed (shipping department).

f. The completed manifest must be signed by the branch manager or his appointed designee.

B. Manifest Routing

1. Remove the number 4 Generator's Copy. Attach the TSDF copy (s) from the original customers and file in another manifest file titled "pending notification". It should be noted that the copy retained may vary on different forms.

2. The remaining copies should be routed to the shipping department.

3. When shipment is made, the transporter must sign the manifest. If via a McKesson truck, the driver must sign. Remove number 6, File Copy, and return to the office.

4. Match number 6 to number 4 copy in the "pending notification" file. This file should be set up as a "tickler" file which insures follow-up in 35 days if the number 1, Original, is not returned from the TSDF.

THIS IS THE LAW - - INITIAL FOLLOW-UP MUST BE MADE AT 35 DAYS. EPA NOTIFICATION MUST BE MADE AT 45 DAYS

5. When the hand signed number 1, Original, is returned, it should be matched to the number 4, Generator Copy and receiving tickets. The "cycle" is not completed; manifest can be closed and filed. These should be filed separately from all other records.

VIII. EPA Notification

If the Original, number 1 copy of the hazardous waste manifest is not received in 45 days, the Regional Office of the Solid Waste Program must be notified. A list of Regional Offices is shown in Exhibit II. Such notification requires:

A. Legible copy of the Hazardous Waste Manifest covering the shipment that is missing.

B. A detailed letter explaining McKesson's efforts to locate the material and obtain the signed manifest.

C. Notification should be by registered mail.

NOTE: A copy of your notification should be submitted to our Regional Operations Department.

IX. Hazardous Waste Manifest Control Ledger

Every Hazardous Waste shipment must be assigned a SDM number and have this form accompany the shipment and be recorded in the Control Ledger. The ledger will show the date shipped, the manifest document number, ship to, and the date confirmation manifest received, number 1 copy.

X. Annual Reporting

An annual report of hazardous waste activity is required under the RCRA law. The report will cover Hazardous Waste activity for a calendar year and is due at the appropriate EPA Regional Office no later than March 1 of the following year.

XI. Retention Schedule

Twenty (20) years for all records, manifests, and reports.

EXHIBIT I

HAZARDOUS WASTE MANIFEST

ORIGINAL — NOT NEGOTIABLE

1 ✓ MANIFEST DOCUMENT NUMBER

2 SHIPPER NUMBER

3 ✓ NAME OF CARRIER — 4 ✓ (SCAC) CARRIER NUMBER

IDENTIFICATION

	12 DIGIT EPA ID #	COMPANY NAME, MAILING ADDRESS, AND TELEPHONE NUMBER	DATE SHIPP... OR RECEIV...
GENERATOR/ SHIPPER 5	✓		
TRANSPORTER # 1 6	✓		
TRANSPORTER # 2 (If required)			
TSDF TREATMENT STORAGE OR DISPOSAL FACILITY 7	✓		
TSDF TREATMENT STORAGE OR DISPOSAL FACILITY		ALTERNATE	

WASTE INFORMATION

NO. OF UNITS & CONTAINER TYPE	HM	EPA HAZ WASTE ID #	DESCRIPTION AND CLASSIFICATION (Proper Shipping Name, Class and Identification Number per 172.101, 172.202, 172.203	UN # or NA #	EXEMPTION OR NO. LABELS REQUIRED	FLASH POINT (IN °C) WHEN REQ'D	UNITS WT/VOL	TOTAL QUANTITY	RATE	CHAR... (For C... Use C...
8 ✓	9	10	11 ✓				12	13		

SPECIAL HANDLING INSTRUCTIONS

If an RQ commodity is spilled on a waterway or adjoining land, the incid... must be promptly reported to the Federal government at 1-800-424-8802 (... free) or 202-426-2675 (toll call). If other DOT Hazardous Materials are discharg... creating a serious situation, call shipper's telephone number or Chemt... 1-800-424-9300 immediately.

COMMENTS

17 PLACARDS TENDERE...
Yes ☐ No ☐

On "Collect on Delivery" shipments, the letters "COD" must appear before consignee's name or as otherwise provided in Item 430, Sec. 1

REMIT C.O.D. TO: ADDRESS

COD Amt: $

C.O.D. FEE: PREPAID ☐ COLLECT ☐ $

Note—Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property. The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding.

$ ________ per ________

"If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight."

________ Signature

Subject to Section 7 of the conditions, if this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:
The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges.

________ (Signature of Consignor)

TOTAL CHARGES: $

FREIGHT CHARGES
FREIGHT PREPAID except when box at right is checked — Check box if charge...

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading, the property described above in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated above which said carrier (the word carrier being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its route, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed as to each carrier of all or any of, said property over all or any portion of said route to destination and as to each party at any time interested in all or any said property, that every service to be performed hereunder shall be subject to all the bill of lading terms and conditions in the governing classification on the date of shipment.

Shipper hereby certifies that he is familiar with all the bill of lading terms and conditions in the governing classification and the said terms and conditions are hereby agreed to by the shipper and accepted for himself and his assigns.

CERTIFICATION

This is to certify that the above-named materials are properly ...sified, described, packaged, marked and labeled, and are in ...per condition for transportation according to the applicable regulations of the Department of Transportation and the U.S. Environmental Protection Agency

14

GENERATOR'S SIGNATURE — DATE

This is to certify acceptance of the hazardous waste shipment.

✓15

TRANSPORTER #1 SIGNATURE & DATE — TRANSPORTER #2 SIGNATURE & DATE (if required)

This is to certify acceptance of the hazardous waste for treatment, storage or disposal.

✓16

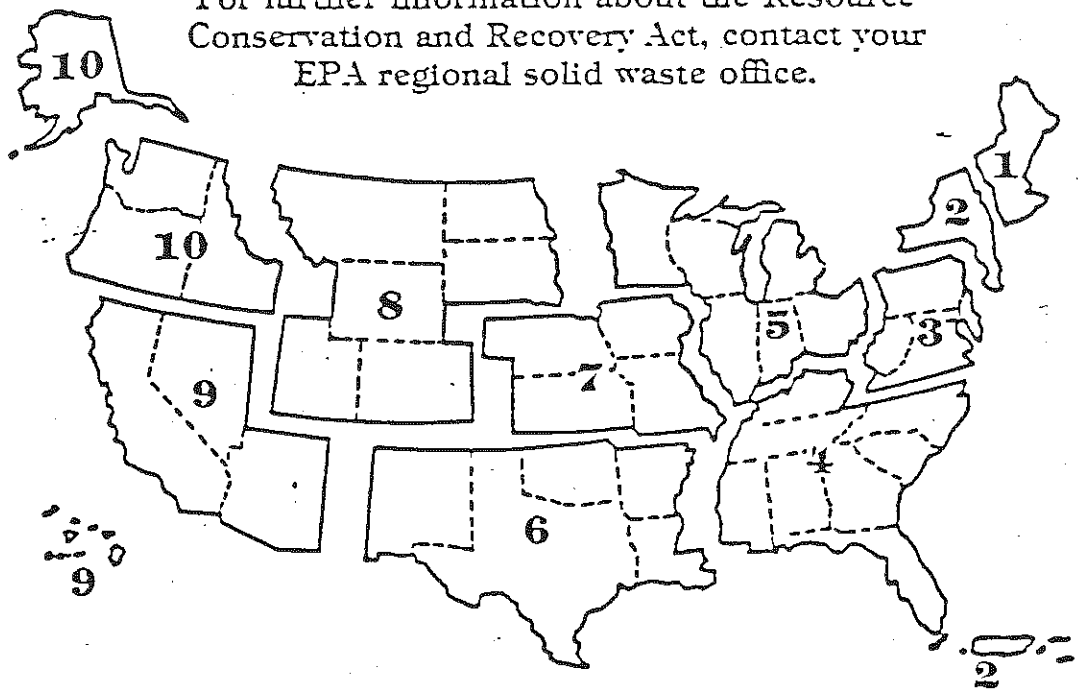
TSDF SIGNATURE — DATE

1

EXHIBIT II

Appendix III

For further information about the Resource Conservation and Recovery Act, contact your EPA regional solid waste office.



Region 1
Solid Waste Program
John F. Kennedy Building
Boston, MA 02203
617-223-5777

Region 2
Solid Waste Section
26 Federal Plaza
New York, NY 10007
212-264-0503/4/5

Region 3
Solid Waste Program
6th and Walnut Streets
Philadelphia, PA 19106
215-597-0980

Region 4
Solid Waste Section
345 Courtland Street, N.E.
Atlanta, GA 30365
404-881-3016

EXHIBIT II

Region 5
Solid Waste Program
230 South Dearborn Street
Chicago, IL 60604
312-886-6148

Region 6
Solid Waste Section
1201 Elm Street
First International Building
Dallas, TX 75270
214-767-2645

Region 7
Waste Management Section
324 East 11th Street
Kansas City, MO 64106
816-374-3307

Region 8
Solid Waste Section
1860 Lincoln Street
Denver, CO 80203
303-837-2221

Region 9
Solid Waste Program
215 Fremont Street
San Francisco, CA 94105
415-556-4606

Region 10
Solid Waste Program
1200 6th Avenue
Seattle, WA 98101
206-442-1260

122.6(a)(d)

McKesson Chemical Company

Certification

(40 CFR Sec. 122.6(a)(d))

I certify under penalty of law that I have personally examined and am familiar with the information submitted in this document and all attachments and that, based on my inquiry of those individuals immediately responsible for obtaining the information, I believe that the information is true, accurate and complete. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment.

This statement applies to the filing in behalf of McKesson's Bedford Heights Branch.

Date: 12/22/82

Signature Ronald R. Powell

Ronald R. Powell

Regional Vice President

APPENDIX

CONTINGENCY PLAN & EMERGENCY PROCEDURES

The Contingency Plan for the McKesson branch, together with documentation of its distribution to local authorities and the details for the Emergency Procedures to be followed in the event of a spill or other accidental discharge of a hazardous wast at the facility is attached.

CONTINGENCY PLAN

TABLE OF CONTENTS

I. OBJECTIVES

II. DISTRIBUTION

III. THE BRANCH SAFETY ORGANIZATION

IV. EMERGENCY TELEPHONE NUMBERS
- A. WITHIN MCKESSON
- B. LOCAL AUTHORITIES
- C. REGULATORY AGENCIES
- D. OUTSIDE CONTRACTOR HELP
- E. ADJACENT NEIGHBORS

V. TRAINING

VI. EMERGENCY EQUIPMENT

VII. EVACUATION

VIII. EMERGENCY PLAN - FIRE

IX. EMERGENCY PLAN - CHEMICAL SPILLS

X. EMERGENCY PLAN - TOXIC GAS RELEASE

XI. EMERGENCY PLAN - STORM, FLOOD

TABLE OF CONTENTS (CONT'D)

XII. EMERGENCY PLAN - BOMB THREAT

XIII. HAZARDOUS WASTES

XIV. PRESS RELATIONS

XV. APPENDIX (AS REQUIRED)

A. USEPA REGISTRATION DATA

B. STATE HAZARDOUS WASTE TRANSPORT CONTINGENCY PLANS

C. STATE POLLUTION INCIDENT PREVENTION PLAN

D. OTHER

I. OBJECTIVES

THIS VOLUME HAS TWO MAJOR PURPOSES:

A. TO PROVIDE INFORMATION AND TO ASSIGN RESPONSIBILITIES TO ENABLE BRANCH PERSONNEL TO UNDERTAKE ACTIONS THAT WILL MINIMIZE ANY THREAT TO THE FACILITY EMPLOYEES, RESIDENTIAL AND BUSINESS NEIGHBORS, COMPANY AND ADJOINING PROPERTY, AND TO THE ENVIRONMENT. THE PLAN IS DESIGNED TO PROVIDE A TOTAL FACILITY RESPONSE PROGRAM APPLICABLE TO ANY EMERGENCY; IN ADDITION, RESPONSES REQUIRED IN THE EVENT OF A SPECIFIC TYPE OF EMERGENCY - FIRE, CHEMICAL SPILL, ETC. - ARE SPELLED OUT.

B. TO PROVIDE A MEANS OF KEEPING IN ONE PLACE, READILY ACCESSIBLE, THE EVER-INCREASING NUMBER OF AUXILLIARY CONTINGENCY PLANS (FOR EXAMPLE, HAZARDOUS WASTE TRANSPORT, MICHIGAN'S POLLUTION INCIDENT PREVENTION PLAN, PENNSYLVANIA'S PREPAREDNESS PREVENTION, AND CONTINGENCY PLAN, THE USEPA'S 40 CFR 264, SUBPART D) REQUIRED BY STATE AND FEDERAL REGULATORY AGENCIES.

THE DATA ARE ORGANIZED SO THAT CHANGES IN PERSONNEL, PROCEDURES, AND REGULATIONS CAN BE EASILY INCORPORATED INTO THE BOOK AS THEY OCCUR, INSURING THAT ALL INFORMATION IS UP-TO-DATE.

ADDITIONAL DETAILS FOR PROCEDURES OUTLINED IN THIS PLAN ARE TO BE FOUND IN TWO OTHER MCKESSON DOCUMENTS IN THE POSSESSION OF EACH EASTERN REGION BRANCH:

1. THE CHEMICAL OPERATIONS MANUAL
2. THE SAFETY TRAINING AND MAINTENANCE DOCUMENTATION MANUAL

II. DISTRIBUTION

EACH BRANCH WILL RECEIVE AND MAINTAIN A COPY OF THIS PLAN. IT IS TO BE KEPT IN A REASONABLY ACCESSIBLE LOCATION BY THE BRANCH OPERATIONS MANAGER.

COPIES OF THE COMPLETE PLAN ARE TO BE DISTRIBUTED TO ALL EMERGENCY SERVICES REASONABLY EXPECTED TO BE CALLED UPON IN THE EVENT OF AN EMERGENCY INVOLVING THE BRANCH. THESE RECIPIENTS ARE TO ACKNOWLEDGE IN WRITING THEIR RECEIVING A COPY OF THE PLAN AND A COPY OF THE RECEIPT SENT TO THE REGIONAL OPERATIONS DEPARTMENT:

THE LOCAL POLICE DEPARTMENT
THE LOCAL FIRE DEPARTMENT
THE LOCAL HOSPITAL/EMERGENCY ROOM
THE CLOSEST STATE POLICE OFFICE

DEPENDING ON THE LOCALITY, THERE MAY BE OTHER ORGANIZATIONS THAT COULD/WILL RECEIVE A COPY:

RESCUE TEAMS
EMERGENCY AMBULANCE CORPS

IN ADDITION, COPIES OF THE PLAN ARE TO BE DISTRIBUTED WITH A LETTER OF TRANSMITTAL TO:

THE USEPA
THE STATE EPA
THE EASTERN REGION OPERATIONS DEPARTMENT

COPIES OF ALL RECEIPTS AND LETTERS OF TRANSMITTAL ARE TO BE FILED IN THIS SECTION OF THE PLAN

III. THE BRANCH SAFETY ORGANIZATION

RESPONSIBILITY FOR THE BRANCH'S SAFETY PROGRAM LIES WITH THE BRANCH MANAGER.

ALTHOUGH EXACTLY HOW A BRANCH'S PERSONNEL ARE ORGANIZED TO IMPLEMENT THIS PLAN DEPENDS UPON THE BRANCH'S SIZE, THE CHEMICALS IT INVENTORIES, THE EXISTENCE AND EXTENT OF A REPACKING INSTALLATION, AND ITS INVOLVEMENT WITH HAZARDOUS WASTES, IMPLEMENTATION OF THIS PLAN REQUIRES AN EMERGENCY COORDINATOR AND AN ALTERNATE EMERGENCY COORDINATOR.

USUALLY THE BRANCH MANAGER RESERVES FOR HIMSELF ONE OF THESE FUNCTIONS AND DELEGATES THE OTHER. ALTHOUGH THE ALTERNATE COORDINATOR IS SECOND-IN-COMMAND, HE MUST BE FULLY QUALIFIED TO TAKE OVER ALL THE FUNCTIONS OF THE PRIMARY COORDINATOR.

IN ADDITION TO THESE TWO POSITIONS, THE FOLLOWING ASSIGNMENTS MUST BE PROVIDED FOR:

FIRST AID TEAM LEADER
FIRE RESPONSE TEAM LEADER
ASSEMBLY POINT LEADER(S)

RESPECTIVE RESPONSIBILITIES OF THESE FUNCTIONS FOLLOWS.

III. THE BRANCH SAFETY ORGANIZATION

A. BRANCH MANAGER

IT SHALL BE THE RESPONSIBILITY OF THE BRANCH/PLANT MANAGER, WITH THE ASSISTANCE OF THE REGIONAL OPERATIONS STAFF TO IMPLEMENT THIS PROCEDURE.

1. PERSONNEL - HE WILL INSURE THAT:

   A) A BRANCH EMERGENCY COORDINATOR IS DESIGNATED AND THAT THIS INDIVIDUAL CARRIES OUT HIS RESPONSIBILITIES, INCLUDING ASSURANCE THAT HE HAS THE PROPERLY TRAINED PEOPLE AND EQUIPMENT TO IMPLEMENT THIS PROGRAM.

   B) ALL PERSONNEL ASSIGNED TO HIM ARE AWARE OF THEIR RESPONSIBILITIES TOWARDS THIS PROGRAM, INCLUDING THE HAZARDS OF THE PRODUCTS DISTRIBUTED AND THE IMMEDIATE REACTION TO POTENTIAL EMERGENCIES RELATED TO THESE PRODUCTS AND MCKESSON'S BUSINESS.

   C) SELECTED BRANCH PERSONNEL ARE TRAINED IN:
      - FIRST AID
      - AIR PACKS
      - GAS MASKS
      - CHLORINE EMERGENCY KITS (AS DESIGNATED BY THE REGIONAL OPERATIONS & SAFETY MANAGER).

   D) ALL BRANCH PERSONNEL ARE TRAINED IN THE USE OF FIRE EXTINGUISHERS.

   E) ALL PERSONNEL PARTICIPATE IN A SEMIANNUAL TRAINING DRILL.

2. EQUIPMENT - HE WILL INSURE THAT ALL EQUIPMENT IDENTIFIED IN THIS PLAN IS ON HAND, IS IN OPERATING CONDITION AND IS SPECIFICALLY IDENTIFIED AND SET ASIDE FOR USE UPON IMPLEMENTATION OF THIS PROGRAM, AS APPLICABLE.

III. THE BRANCH SAFETY ORGANIZATION

A. BRANCH MANAGER CONT'D.

3. PLAN - HE WILL ENSURE THAT THIS EMERGENCY/CONTINGENCY PROGRAM FOR HIS FACILITY IS COMPLETE AND IS UPDATED QUARTERLY.

4. DOCUMENTATION - HE WILL ENSURE THAT ALL EMPLOYEE TRAINING IS DOCUMENTED, AND THAT DISTRIBUTION OF THIS PLAN TO APPROPRIATE GOVERNMENT AUTHORITIES IS RECEIPTED.

III. THE BRANCH SAFETY ORGANIZATION

B. BRANCH EMERGENCY COORDINATOR

IT SHALL BE THE RESPONSIBILITY OF THE FACILITY EMERGENCY COORDINATOR, WITH THE ASSISTANCE OF THE REGIONAL OPERATIONS STAFF, TO EXECUTE THIS PROCEDURE.

1. PERSONNEL - HE WILL INSURE THAT:

A) ALL PERSONNEL WORKING AT THE FACILITY (TO INCLUDE TEMPORARY HELP AND CONTRACTORS) ARE AWARE OF THEIR RESPONSIBILITIES TOWARDS THIS PROGRAM, INCLUDING THE HAZARDS OF THE PRODUCTS DISTRIBUTED AND THE IMMEDIATE REACTION TO POTENTIAL EMERGENCIES RELATED TO THESE PRODUCTS AND MCKESSON'S BUSINESS.

B) SELECTED BRANCH PERSONNEL ARE TRAINED IN:

- FIRST AID
- AIR PACKS
- GAS MASKS
- CHLORINE EMERGENCY KITS (AS DESIGNATED BY THE REGIONAL OPERATIONS AND SAFETY MANAGER).

C) ALL BRANCH PERSONNEL ARE TRAINED IN THE USE OF FIRE EXTINGUISHERS.

D) ALL PERSONNEL PARTICIPATE IN A SEMIANNUAL TRAINING DRILL.

E) PERSONNEL ARE ASSIGNED TO AND TRAINED TO PERFORM THE POSITIONS SPECIFIED IN THE:

- FIRE FIGHTING TEAM
- FIRST AID

F) PERSONNEL ARE AWARE OF THEIR RESPONSIBILITIES AS OUTLINED IN THE FACILITY EVACUATION PLAN.

G) ARRANGEMENTS WITH LOCAL AUTHORITIES ARE DOCUMENTED.

H) APPROPRIATE FEDERAL, STATE, AND LOCAL AGENCIES ARE NOTIFIED AS APPLICABLE.

III. THE BRANCH SAFETY ORGANIZATION

B. BRANCH EMERGENCY COORDINATOR CONT'D.

1. PERSONNEL CONT'D.

I) APPROPRIATE CHEMICAL COMPANY OFFICERS ARE NOTIFIED AS APPLICABLE.

J) IN THE EVENT OF IMMINENT OR ACTUAL EMERGENCY, HE MUST EXECUTE THE PROCEDURE TO INCLUDE:

1. NOTIFY ALL CONCERNED OF THE SITUATION TO INCLUDE PLANT PERSONNEL AND NEIGHBORS, AS APPLICABLE. (SEE PHONE NUMBERS IN SECTION IV OF THIS PROGRAM.)
2. ANALYZE THE EMERGENCY SITUATION.
3. TAKE THE APPROPRIATE CORRECTIVE ACTION.
4. SECURE THE EMERGENCY SCENE.
5. CLEAN THE EMERGENCY SCENE.

K) ALL APPLICABLE REPORTS TO COMPANY AND GOVERNMENT AGENCIES ARE FILED AS APPROPRIATE.

2. EQUIPMENT - INSURE ALL EQUIPMENT IDENTIFIED IN THIS PROCEDURE IS ON HAND, IS IN OPERATING CONDITION, AND IS SPECIFICALLY IDENTIFIED AND SET ASIDE FOR USE UPON IMPLEMENTATION OF THIS PROGRAM, AS APPLICABLE. INSURE THAT AN INVENTORY OF THE ABOVE EQUIPMENT IS TAKEN AND THAT THIS INVENTORY IS DOCUMENTED.

3. AUTHORITY - HE HAS THE AUTHORITY TO COMMIT ALL AVAILABLE RESOURCES REQUIRED TO IMPLEMENT THIS PLAN.

III. THE BRANCH SAFETY ORGANIZATION

C. FIRST AID TEAM LEADER

IT SHALL BE THE RESPONSIBILITY OF THE FIRST AID TEAM LEADER WITH THE ASSISTANCE OF AND UNDER THE DIRECTION OF THE BRANCH EMERGENCY COORDINATOR TO INSURE THAT ALL PERSONNEL ASSIGNED A RESPONSIBILITY IN THE FIRST AID TEAM ARE FAMILIAR WITH THE HAZARDS OF THE PRODUCTS HANDLED BY THE BRANCH AND THAT THEY ARE AWARE OF THE IMMEDIATE ACTION NECESSARY TO COUNTER POTENTIAL EMERGENCIES RELATED TO THESE PRODUCTS.

HE WILL INSURE THAT ALL EQUIPMENT FOR USE BY THE FIRST AID TEAM IS:

1. ON HAND
2. IN OPERATING CONDITION
3. SPECIFICALLY IDENTIFIED AND SET ASIDE FOR USE BY THE FIRST AID TEAM

III. <u>THE BRANCH SAFETY ORGANIZATION</u>

D. <u>FIRE RESPONSE TEAM LEADER</u>

IT SHALL BE THE RESPONSIBILITY OF THE FIRE RESPONSE TEAM LEADER, WITH THE ASSISTANCE OF AND UNDER THE DIRECTION OF THE BRANCH EMERGENCY COORDINATOR TO EXECUTE THIS PORTION OF THE PROCEDURE.

1. <u>PERSONNEL</u> -

   A) SELECT AN ALTERNATE

   B) SELECT MEMBERS OF THE FIRE FIGHTING TEAM

   C) INSURE THAT ALL PERSONNEL DESIGNATED A RESPONSIBILITY IN THE FIRE RESPONSE TEAM IS AWARE OF THAT RESPONSIBILITY AND IS TRAINED TO DO IT.

   D) INSURE THAT ALL PERSONNEL DESIGNATED A RESPONSIBILITY IN THE FIRE RESPONSE TEAM ARE FAMILIAR WITH THE HAZARDS OF THE PRODUCTS DISTRIBUTED AND THAT HE IS AWARE OF THE IMMEDIATE ACTION NECESSARY TO COUNTER POTENTIAL EMERGENCIES RELATED TO THESE PRODUCTS.

   E) INSURE THAT MEMBERS OF THE FIRE RESPONSE TEAM UNDERSTAND THAT THEY ARE NEITHER TRAINED NOR EQUIPPED TO HANDLE A MAJOR FIRE. THEY MUST KNOW THE LIMIT OF THEIR TRAINING AND EQUIPMENT AND ALWAYS STAY WITHIN THESE LIMITS.

2. <u>EQUIPMENT</u> - INSURE THAT ALL EQUIPMENT IDENTIFIED IN THE PROCEDURE FOR USE BY THE FIRE RESPONSE TEAM IS:

   A) ON HAND

   B) IN OPERATING CONDITION

   C) SPECIFICALLY IDENTIFIED AND SET ASIDE FOR USE BY THE FIRE RESPONSE TEAM, AS APPLICABLE.

3. <u>PLAN</u> - INSURE THAT:

   A) THE FIRE REACTION PLAN IS COMPLETE AND CURRENT.

   B) DEFICIENCIES IDENTIFIED IN THE FIRE REACTION TEAM, IN ANY

III. <u>THE BRANCH SAFETY ORGANIZATION</u>

D. <u>FIRE RESPONSE TEAM LEADER CONT'D.</u>

B) CONT'D.

AREA, TO INCLUDE PERSONNEL, EQUIPMENT OR PLANNING, IS BROUGHT TO THE ATTENTION OF THE EMERGENCY REACTION TEAM LEADER IMMEDIATELY.

III. THE BRANCH SAFETY ORGANIZATION

E. ASSEMBLY POINT LEADER(S)

NORMALLY, THERE SHOULD BE AN ASSEMBLY POINT LEADER FOR THE THREE AREAS OF A BRANCH - OFFICE, WAREHOUSE, YARD. IT SHALL BE THEIR RESPONSIBILITY TO:

1. PROCEED DIRECTLY TO THE ASSEMBLY AREA AS PRESCRIBED IN THE EVACUATION PLAN.
2. ACCOUNT FOR ALL PERSONNEL ASSIGNED TO THE AREA AND REPORT ANY ABSENCES TO THE EMERGENCY COORDINATOR.
3. KEEP PERSONNEL IN ASSEMBLY AREA TOGETHER AND CALM.
4. TAKE AN INDUSTRIAL FIRST AID KIT TO THE ASSEMBLY AREA.
5. TURN OFF THE MAIN ELECTRICAL POWER SWITCH IN THE BUILDING.

ASSIGNMENTS

EMERGENCY COORDINATOR:

NAME Ed Welsh

HOME ADDRESS 1298 Vantage Way

Streetsboro, OH 44240

HOME PHONE (216) 626-2514

ALTERNATE EMERGENCY COORDINATOR:

NAME Cliff Moll

HOME ADDRESS 1966 Crestdale Drive

Stow, OH 44224

HOME PHONE (216) 688-0068

FIRST AID LEADER:

NAME Mike Ryalls

HOME ADDRESS 2260 Par Lane, Apt #LL1

Willoughby Hills, OH 44092

HOME PHONE (216) 585-2847

FIRE RESPONSE TEAM LEADER:

NAME Ed Welsh

HOME ADDRESS 1298 Vantage Way

Streetsboro, Ohio 44240

HOME PHONE (216) 626-2514

Assignments Cont'd

Assembly Point Leaders:

Office:

Name Mike Ryalls

Home Address 2260 Par Lane, Apt#LL1
Willoughby Hills, OH 44092

Home Phone (216) 585-2847

Yard:

Name John Vansil

Home Address 9559 Coit Road
Mantua, OH 44255

Home Phone (216) 274-3580

Warehouse:

Name Ed Welsh

Home Address 1298 Vantage Way
Streetsboro, OH 44240

Home Phone (216) 626-2514

IV. EMERGENCY TELEPHONE NUMBERS

A. WITHIN McKESSON

1. BRANCH MANAGER:

NAME Cliff Moll

ADDRESS 1966 Crestdale Drive

Stow, OH 44224

PHONE - OFFICE (216) 292-7500

HOME (216) 688-0068

2. BRANCH OPERATIONS MANAGER:

NAME Ed Welsh

ADDRESS 1298 Vantage Way

Streetsboro, OH 44240

PHONE - OFFICE (216) 292-7500

HOME (216) 626-2514

3. DISTRICT MANAGER:

NAME R. W. Deiling

ADDRESS 413 West Areba Avenue

Hershey, PA 17033

PHONE - OFFICE (717) 533-5265

HOME (717) 534-1339

4. REGIONAL OPERATIONS/SAFETY MANAGER:

NAME WALTER R. LANDRY

ADDRESS 27 MAYER DRIVE

SUFFERN, NY 10901

PHONE - OFFICE (201) 573-9480

HOME (914) 368-1898

IV. EMERGENCY TELEPHONE NUMBERS

A. WITHIN MCKESSON (CONT'D)

5. REGIONAL OPERATIONS STAFF:

NAME RONALD W. VON DREAU
ADDRESS RD #1 BOX 134-C
SALISBURY MILLS, NY 12577
PHONE - OFFICE (201) 573-9480
HOME (914) 496-6894

NAME DONALD M. BLACK
ADDRESS 11 HORTON LANE
NEW CANAAN, CT 06840
PHONE - OFFICE (201) 573-9480
HOME (203) 966-8670

NAME AL RODRIGUEZ
ADDRESS 347 HUDSON STREET
CORNWALL-ON-HUDSON, NY 12520
PHONE - OFFICE (201) 573-9480
HOME (914) 534-8488

6. REGIONAL VICE-PRESIDENT:

NAME RONALD R. POWELL
ADDRESS 296 EAST SADDLE RIVER ROAD
UPPER SADDLE RIVER, NJ 07458
PHONE - OFFICE (201) 573-9480
HOME (201) 825-1508

IV. EMERGENCY TELEPHONE NUMBERS

A. WITHIN MCKESSON (CONT'D)

ONE OF THE MCKESSON MANAGERIAL AND STAFF PERSONNEL LISTED BELOW MUST BE CONTACTED IN THE EVENT OF AN EXTREME EMERGENCY IF ONE OF THE REGIONAL PERSONNEL CANNOT BE CONTACTED.

1. HOME OFFICE OPERATIONS:

VICE-PRESIDENT:

NAME DICK A. DAVIS

ADDRESS ONE POST STREET
SAN FRANCISCO, CA 94104

PHONE - OFFICE (415) 983-9019
HOME (415) 547-3040

ENGINEERING DIRECTOR:

NAME CARL L. PIERCY

ADDRESS ONE POST STREET
SAN FRANCISCO, CA 94104

PHONE - OFFICE (415) 983-8492
HOME (415) 284-4251

TECHNICAL DIRECTOR:

NAME DOUG L. EISNER

ADDRESS ONE POST STREET
SAN FRANCISCO, CA 94104

PHONE - OFFICE (415) 983-9214
HOME (415) 937-7708

IV. EMERGENCY TELEPHONE NUMBERS

A. WITHIN McKESSON (CONT'D)

2. OTHER:

VICE-PRESIDENT:

NAME CHARLES THOMPSON

ADDRESS ONE POST STREET

SAN FRANCISCO, CA 94104

PHONE - OFFICE (415) 983-8300

HOME (415) 376-0884

PRESIDENT:

NAME BARRY B. BLOCKER

ADDRESS ONE POST STREET

SAN FRANCISCO, CA 94104

PHONE - OFFICE (415) 983-8342

HOME (415) 851-0102

B. LOCAL AUTHORITIES:

1. POLICE: NAME Bedford Heights PHONE: (216) 439-1234
2. FIRE DEPARTMENT: NAME Bedford Heights PHONE: (216) 439-1212
3. AMBULANCE: NAME Bedford Heights PHONE: (216) 439-1212
4. HOSPITAL: NAME Suburban Community PHONE: (216) 491-6112
5. CHEMTREC: 1-800-424-9300

C. REGULATORY AGENCIES:

STATE ENVIRONMENTAL CONTACT:

NAME Steve Tuckerman

PHONE (216) 425-9171

IV. EMERGENCY TELEPHONE NUMBERS

C. REGULATORY AGENCIES (CONT'D)

FEDERAL EPA CONTACT:

NAME Kathy Homer

PHONE (312) 886-4023

BRANCH FEDERAL EPA ID NUMBER OHD071107791 (GENERATOR)

D. ADJACENT NEIGHBORS:

NAME Union Paper & Twine PHONE (216) 292-5700

ADDRESS 26401 Richmond Road, Bedford Heights, OH 44146

NAME B & B Wood Products PHONE (216) 292-6555

ADDRESS 26555 Richmond Road, Bedford Heights, OH 44146

NAME Converter Corp. PHONE (216) 464-4244

ADDRESS 26691 Richmond Road, Bedford Heights, OH 44146

NAME Jorgenson Steel PHONE (216) 292-5555

ADDRESS 26400 Richmond Road, Bedford Heights, OH 44146

E. OUTSIDE CONTRACTOR HELP:

LISTED BELOW ARE INDUSTRIAL CLEAN UP COMPANIES IDENTIFIED TO ASSIST IN THE CLEANUP OF A CHEMICAL SPILL:

NAME Erieway Pollution Control PHONE (216) 439-2955

ADDRESS 33 Industry Drive, Bedford, OH 44146

EPA ID NO. ____________

NAME ____________ PHONE ____________

ADDRESS ____________

EPA ID NO. ____________

IV. EMERGENCY TELEPHONE NUMBERS (CONT'D)

F. TRANSPORTER (OUTSIDE)

LISTED BELOW ARE COMMON CARRIERS THAT CAN BE OF ASSISTANCE IN TRANSPORTING HAZARDOUS MATERIALS/WASTES:

NAME SCHNEIDER TANK LINES PHONE: 1-800-558-5091
ADDRESS: APPLETON, WI
EPA ID NO.: WID023463128

NAME BRANCH MOTOR EXPRESS CO. (EXCEPT OHIO) PHONE: 1-800-221-3863
ADDRESS: NEW YORK, NY (IN NY): 1-800-522-5208
EPA ID NO.: NYD001669803

V. TRAINING

A. ALL EMPLOYEES OF THE BRANCH ARE TO BE FAMILIAR WITH THE CONTENTS OF THIS PLAN. THEY MUST KNOW THE PRIMARY AND SECONDARY EXITS WITHIN THEIR RESPECTIVE WORK AREAS, AS WELL AS THE LOCATION OF FIRE EXTINGUISHERS AND FIRST AID KITS THEY MAY UTILIZE IN CASE OF AN EMERGENCY. THIS TRAINING IS TO BE DOCUMENTED AND REVIEWED AT LEAST ANNUALLY.

RUN-THROUGHS OF THE BRANCH'S EMERGENCY RESPONSE PLAN ARE TO BE CONDUCTED AT LEAST SEMI-ANNUALLY; THESE DRILLS ARE TO BE DOCUMENTED TO INCLUDE A DESCRIPTION OF EACH TEST, ITS RESULTS, AND RECOMMENDATIONS FOR ANY CHANGES AND IMPROVEMENTS. PROCEDURES ARE OUTLINED IN THE REGION'S TAB 6.

B. SPECIFIC BRANCH PERSONNEL ARE TO BE TRAINED IN:

SUBJECT	SAFETY TRAINING, MANUAL TAB NO.
A. FIRST AID	17
B. USE OF RESPIRATORS & SELF-CONTAINED BREATHING APPARATUS	33
C. USE OF FIRE EXTINGUISHERS	11

C. ALL BRANCH PERSONNEL WITH "HANDS-ON" CONTACT WITH HAZARDOUS MATERIALS AND HAZARDOUS WASTES ARE TO RECEIVE APPROPRIATE TRAINING BY REGIONAL OPERATIONS PERSONNEL. THIS WILL INCLUDE AT LEAST THE BRANCH OPERATIONS MANAGER AND ALL WAREHOUSEMEN AND DRIVERS. ALL NEW EMPLOYEES ARE TO RECEIVE THIS TRAINING WITHIN SIX WEEKS OF HIRE, AND IT IS TO BE REPEATED/REVIEWED AT LEAST ANNUALLY. A COPY OF THE CONTENTS OF THE TRAINING PROGRAM IS PART OF THE APPENDIX.

ALL EMPLOYEES ARE RECOMMENDED TO ATTEND THESE TRAINING SESSIONS.

VI. EMERGENCY EQUIPMENT

2. TOOLS/MISCELLANEOUS CONT'D.

- ASSORTED BUNGS
- DUCT TAPE
- LEAD WOOL
- STAINLESS STEEL SCREWS (ASSORTED SIZES) WITH RUBBER GASKETS
- SHEET RUBBER AND TEFLON (GASKET MATERIAL)
- BOX WIPING RAGS
- TRANSFER PUMP
- 100" EXTENSION CORD
- BAGS OF SAND AND HYDRATED LIME
- RECOVERY DRUM (65 GALLON)
- 2' - 5' SPADE SHOVELS

B. PALLETIZED -

EQUIPMENT STORED ON A PALLET FOR READY TRANSPORT TO OFF-SITE EMERGENCIES. MATERIAL IS ALSO AVAILABLE FOR ON-SITE USE, OF COURSE:

- 10 LB. ABC FIRE EXTINGUISHER
- TRIANGLE EMERGENCY MARKERS
- RUBBER GLOVES
- RUBBER APRONS
- RUBBER BOOTS
- HARD HATS WITH FULL FACE SPLASH SHIELD AND CHIN GUARD
- SLICKER SUITS
- PUSH BROOMS
- FLASHLIGHTS AND SPARE BATTERIES
- 100 LB. BAGS OF SAND
- 100 LB. BAGS OF SODA ASH
- PLASTIC LINERS FOR 55 GALLON DRUMS

VI. EMERGENCY EQUIPMENT

THERE ARE THREE BASIC "GROUPINGS" OF EMERGENCY EQUIPMENT TO BE MAINTAINED AT EACH BRANCH:

A. ON SITE -

1. CERTAIN EQUIPMENT IS TO BE STATIONED THROUGHOUT THE BRANCH AT FIXED LOCATIONS:

   - FIRE EXTINGUISHERS
   - FIRST AID KITS
   - RESPIRATORS
   - SHOVELS
   - BROOMS
   - PROTECTIVE CLOTHING
   - SELF-CONTAINED BREATHING APPARATUS ("AIR PACK")

   DEPENDING ON THE BRANCH,

   - CHLORINE KIT A
   - CHLORINE KIT B

   THE EVACUATION ROUTE PLAN IS MOUNTED IN EASY VIEW AND MUST IDENTIFY THE LOCATION OF THE ABOVE.

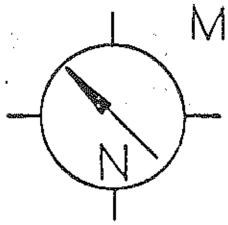
2. TOOLS/MISCELLANEOUS ARE KEPT IN A SECURE LOCATION (TOOL LOCKER):

   - SCREWDRIVERS
   - HAMMERS
   - CHANNEL LOCK PLIERS
   - NEEDLE-NOSE PLIERS
   - LINOLEUM KNIFE
   - 1/2" CHISEL
   - PIPE WRENCHES (24", 18")
   - CRESCENT WRENCHES (12", 10", 6")
   - BUNG WRENCHES

VI. EMERGENCY EQUIPMENT (CONT'D)

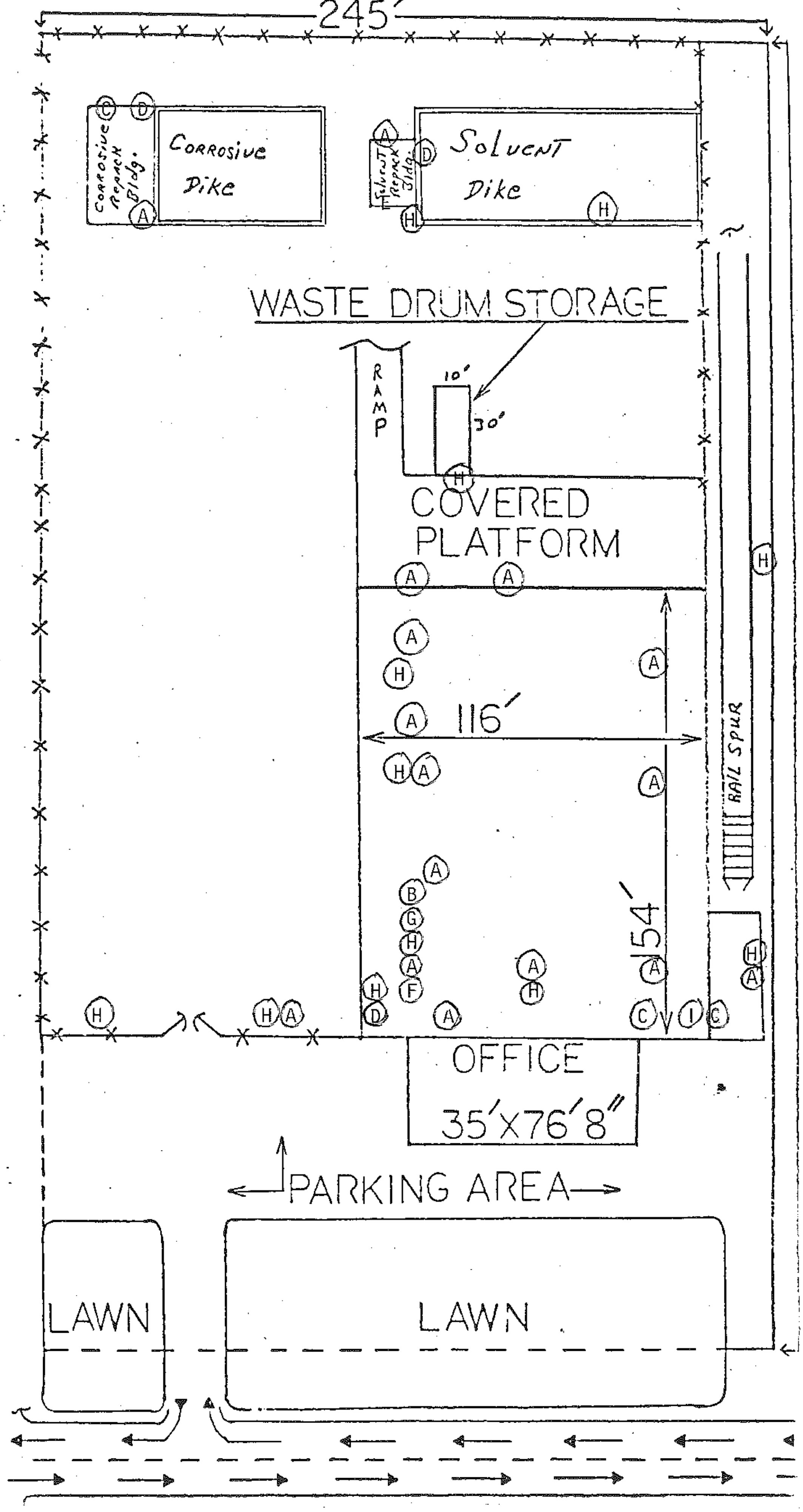
THE LOCATIONS OF THE EMERGENCY EQUIPMENT AT THIS MCKESSON BRANCH ARE DEPICTED ON THE FOLLOWING PAGE.

McKESSON CHEMICAL Co. CLEVELAND, OHIO



LOCATION OF EMERGENCY EQUIPMENT

A. Fire Extinguishers
B. Emergency Response Equipment
C. Safety Showers
D. First Aid Kits
E. Fire Blankets
F. Stretcher
G. Sprinkler System
H. No Smoking Signs
I. Fire Hose & Hydrant



SCALE
1"=50'

VII. EMERGENCY RESPONSE/EVACUATION

IN THE EVENT OF AN EMERGENCY SITUATION, THE INDIVIDUAL MAKING DISCOVERY OF THE OCCURRENCE IS TO IMMEDIATELY NOTIFY THE EMERGENCY COORDINATOR OR HIS ALTERNATE; IF NEITHER IS AVAILABLE, THE NEXT ALTERNATE LISTED ON THE EMERGENCY PHONE NUMBER LISTING. THE EMERGENCY COORDINATOR, AS DO HIS ALTERNATES, HAVE THE AUTHORITY TO COMMIT COMPANY RESOURCES AND INITIATE REQUESTS FOR ASSISTANCE TO ANY EMERGENCY AGENCY.

THE PHONE NUMBER LISTING AND EMERGENCY PROCEDURES OUTLINED IN THE PLAN ARE POSTED WITHIN THE FACILITY AND ARE KEPT READILY AVAILABLE BY THE LISTED COORDINATOR AND HIS ALTERNATES.

THE DECISION MUST BE MADE BY THE COORDINATOR OR HIS ALTERNATE, WHETHER A SITUATION POSES IMMINENT THREAT TO HUMAN LIFE, HEALTH, OR THE ENVIRONMENT TO SUCH AN EXTENT AS TO REQUIRE EVACUATION OF THE FACILITY OR ONLY A PARTIAL RESPONSE TO THE SITUATION.

SPECIFIC PROCEDURES TO BE FOLLOWED FOR SPECIFIC EMERGENCIES ARE SPELLED OUT IN THE FOLLOWING SECTIONS OF THIS PLAN.

VII. EMERGENCY RESPONSE/EVACUATION

THE FACILITY EVACUATION PROCEDURE IS TO BE IMPLEMENTED BY BRANCH PERSONNEL WHEN IT BECOMES NECESSARY TO EVACUATE THE FACILITY WITH MINIMUM EXPOSURE TO PERSONNEL INJURY OR DAMAGE TO PROPERTY OR TO THE ENVIRONMENT BECAUSE OF EMERGENCIES SUCH AS FIRE, CHEMICAL SPILL, TOXIC GAS RELEASE, SEVERE WEATHER, AND BOMB THREATS.

WHENEVER THERE IS AN IMMINENT OR ACTUAL CONTINGENCY SITUATION WITHIN THE BRANCH REQUIRING EVACUATION OF THE PREMISES, THE EMERGENCY COORDINATOR (OR ALTERNATE WHEN EMERGENCY COORDINATOR IS UNAVAILABLE) WILL IMMEDIATELY:

1. NOTIFY THE OCCUPANTS OF THE FACILITY BY SOUNDING THE BRANCH ALARM SYSTEM. ALTERNATE MEANS OF NOTIFICATION WILL BE THE TELEPHONE PAGING SYSTEM OR VOICE COMMUNICATION.
2. INSTITUTE THE BRANCH'S FACILITY EVACUATION PLAN AND CALL INTO ACTION SPECIFIC RESPONSIBLE ASSIGNMENTS.
3. IDENTIFY THE CHARACTER, EXACT SOURCE, AND AMOUNT OF ANY RELEASED MATERIALS. HE WILL DO THIS BY OBSERVATION OR REVIEW OF THE BRANCH'S RECORDS OR MANIFEST. (IN THE MCKESSON SYSTEM, ALL CONTAINERS ARE LABELED.)
4. ASSESS POSSIBLE HAZARDS TO HUMAN HEALTH OR THE ENVIRONMENT THAT MAY RESULT FROM RELEASE, FIRE, OR EXPLOSION. THIS ASSESSMENT WILL CONSIDER BOTH DIRECT AND INDIRECT EFFECTS.
5. TAKE ALL POSSIBLE MEASURES NECESSARY TO INSURE THAT FIRES, EXPLOSIONS, OR RELEASES DO NOT SPREAD TO OTHER HAZARDOUS WASTE AT THE BRANCH.

   THESE MEASURES WILL INCLUDE:

   A. STOPPING OPERATIONS
   B. COLLECTING AND CONTAINING RELEASE WASTE
   C. REMOVING OR ISOLATING CONTAINERS

VII. EMERGENCY RESPONSE/EVACUATION

5. CONT'D.

   D. MONITORING FOR LEAKS

   E. MONITORING FOR PRESSURE BUILDUP

   F. MONITORING FOR GAS GENERATION

   G. MONITORING FOR RUPTURES IN VALVES, PIPES, OR OTHER EQUIPMENT.

6. PROVIDE FOR TREATING, STORING, OR DISPOSING OF RECOVERED WASTE, CONTAMINATED SOIL OR SURFACE WATER, OR ANY OTHER MATERIAL THAT RESULTS FROM RELEASE, FIRE, OR EXPLOSION AT THE BRANCH.

7. INSURE THAT IN THE AFFECTED AREAS OF THE BRANCH:

   A. NO WASTE THAT MAY BE INCOMPATIBLE WITH THE RELEASED MATERIAL IS TREATED, STORED, OR DISPOSED OF UNTIL CLEAN UP PROCEDURES ARE COMPLETED.

   B. ALL EMERGENCY EQUIPMENT IS CLEANED AND FIT FOR ITS INTENDED USE BEFORE OPERATIONS ARE RESUMED.

8. AS REQUIRED, ARRANGE FOR NOTIFICATION OF FEDERAL, STATE, AND LOCAL AUTHORITIES THAT THE BRANCH IS IN COMPLIANCE WITH PARAGRAPH (7) BEFORE OPERATIONS ARE RESUMED IN AFFECTED AREAS OF THE BRANCH.

MEANWHILE, ALL PERSONNEL WITH NO SPECIFIC RESPONSIBILITIES WILL LEAVE BY THE NEAREST MARKED EXIT (SEE EVACUATION MAP) AND PROCEED IMMEDIATELY VIA THE SAFEST ROUTE TO THEIR ASSIGNED ASSEMBLY AREA, REPORTING TO THE AREA GROUP LEADER.

ONCE BRANCH PERSONNEL HAVE CLEARED THE FACILITY AND HAVE CONGREGATED IN THEIR ASSIGNED LOCATIONS, THE GROUP LEADER WILL TAKE A HEAD COUNT, MAKING

VII. EMERGENCY RESPONSE/EVACUATION

SURE ALL PERSONNEL ARE ACCOUNTED FOR. HE WILL KEEP THE GROUP TOGETHER AND AWAIT INSTRUCTIONS FROM THE EMERGENCY COORDINATOR.

ONCE THE EMERGENCY HAS CLEARED, HE WILL CONTROL THE RETURN OF HIS GROUP TO THEIR WORK LOCATIONS.

PERSONNEL OPERATING ELECTRICAL EQUIPMENT AT THE TIME OF THE ALARM WILL TURN OFF THE MACHINE - AND UNPLUG IT IF POSSIBLE.

VEHICLE AND LIFT OPERATORS WILL CLEAR THEIR EQUIPMENT FROM ALL AISLES AND EXITS.

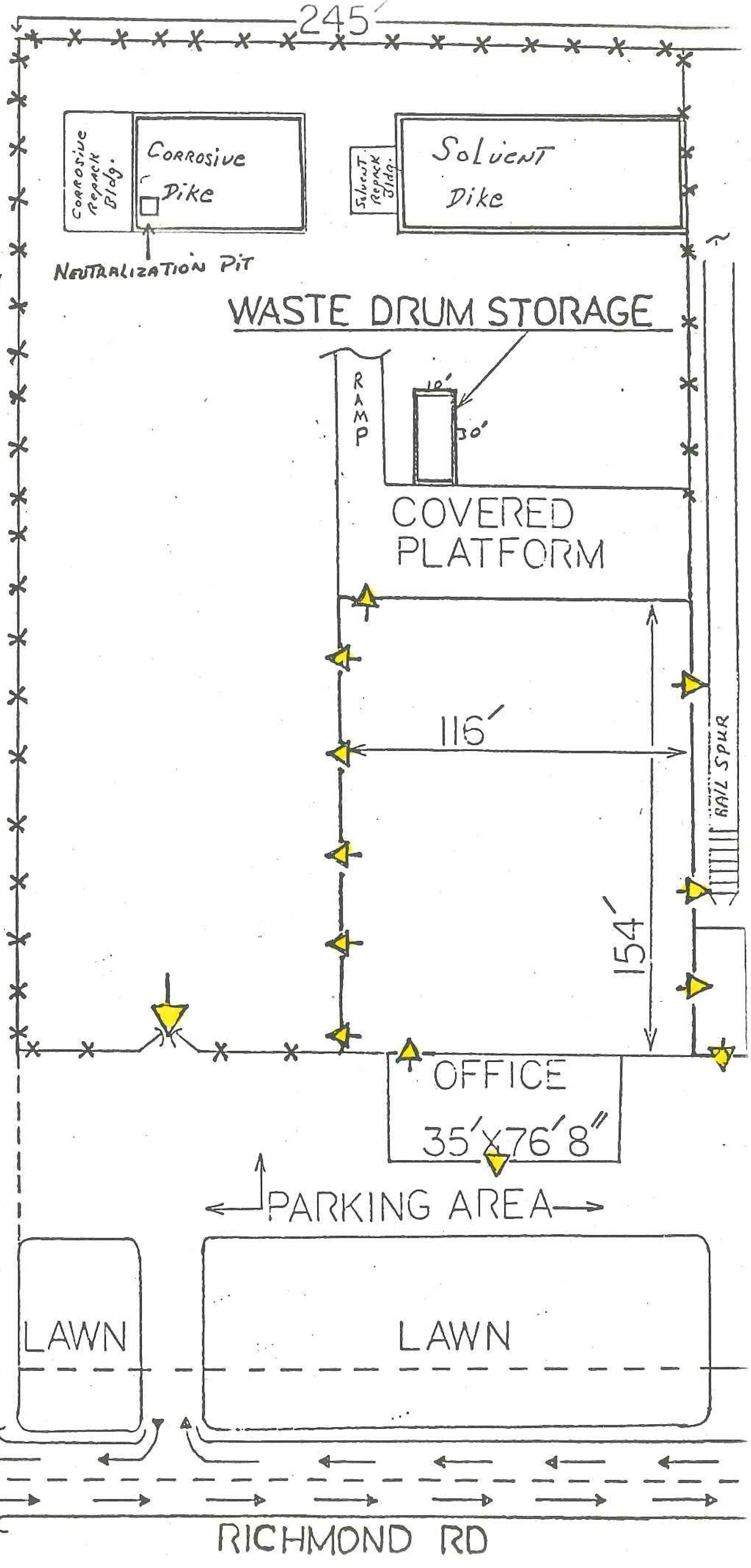
FURTHER ACTION WILL DEPEND UPON THE NATURE OF THE EMERGENCY:

- FIRE
- CHEMICAL SPILL
- TOXIC GAS RELEASE
- STORM, FLOOD
- BOMB THREAT

MCKESSON CHEMICAL COMPANY

CLEVELAND, OHIO BRANCH

LOCATION OF EMERGENCY EXITS



X= FENCE

= EXIT

SCALE

1"=50'

VIII. EMERGENCY - FIRE

THE MOST PROBABLE CAUSE FOR EVACUATION OF THE PREMISES OF THIS BRANCH IS FIRE.

IT IS IMPORTANT THAT ALL EMPLOYEES NEVER FORGET THAT FIREFIGHTING REQUIRES PROFESSIONAL ACTION. CALL THE EMERGENCY FIRE NUMBER FOR HELP. HOWEVER, BRANCH PERSONNEL WILL FOLLOW THIS PROCEDURE:

1. ONCE A FIRE SITUATION BREAKS OUT, SUPERVISORY PERSONNEL OR THE BRANCH OFFICE MUST BE ALERTED AND GIVEN THE FOLLOWING INFORMATION:
   - A. NAME OF REPORTING PERSON
   - B. LOCATION OF FIRE
   - C. NECESSITY OF FIRE TRUCK, AMBULANCE, POLICE OR ANY OTHER EMERGENCY VEHICLE OR EQUIPMENT
     THESE WILL BE CALLED IMMEDIATELY.
   - D. ANY OTHER INFORMATION DEEMED NECESSARY
2. IF IN THE JUDGEMENT OF THE EMERGENCY COORDINATOR THE SITUATION CALLS FOR THE IMPLEMENTATION OF THE FACILITY EVACUATION PLAN, HE WILL NOTIFY IMMEDIATELY THE OCCUPANTS OF THE FACILITY BY FIVE SHORT BLASTS ON THE EMERGENCY WARNING SIGNAL, OR BY THE TELEPHONE SYSTEM, OR BY VOICE COMMUNICATION.
3. UPON NOTIFICATION OF EVACUATION, ALL PERSONNEL WITH NO EMERGENCY RESPONSIBILITIES WILL LEAVE THE PREMISES BY THE NEAREST SAFE EXIT (AS NOTED ON THE EVACUATION MAP) AND REPORT TO HIS ASSEMBLY POINT LEADER. VEHICLE AND FORKLIFT OPERATORS WILL CLEAR THEIR EQUIPMENT FROM AISLES AND EXITS, IF POSSIBLE, AND WILL MAKE SURE ALL ENGINES AND MOTORS ARE TURNED OFF.

VIII. EMERGENCY - FIRE CONT'D.

4. IN THE EVENT OF FIRE, THE EMERGENCY COORDINATOR MUST MAKE AN ASSESSMENT AS TO THE NUMBER OF DIFFERENT POTENTIAL PROBLEMS OR SITUATIONS WHICH MIGHT PRESENT THEMSELVES IN AN EMERGENCY, AND HOW TO DEAL WITH THEM. CONSIDERATION MUST BE GIVEN TO ITEMS SUCH AS:

   - RELEASE OF FUMES AND POSSIBLE NECESSITY FOR NEIGHBOR EVACUATION
   - POTENTIAL MATERIALS WHICH WHEN EXPOSED TO FIRE COULD EXPLODE AND RESULT IN FLYING DEBRIS WHICH COULD SPREAD FIRE TO OFF-SITE AREAS OR PREVIOUSLY UNAFFECTED AREAS AT THE FACILITY
   - EXPLOSIONS WHICH COULD RESULT IN THE RELEASE OF MATERIALS FROM CONTAINERS
   - RESIDUES FROM FIREFIGHTING ACTIVITIES WHICH MAY REQUIRE TO BE CONTAINED AND DEALT WITH IN AN APPROPRIATE MANNER IF DEEMED HAZARDOUS

5. ALL INDIVIDUALS ARE RESPONSIBLE TO FAMILIARIZE THEMSELVES WITH THE CONTENT OF THIS PLAN PLUS THE PRIMARY AND SECONDARY EXITS WITHIN THEIR WORK AREAS, AS WELL AS THE LOCATION OF FIRE EXTINGUISHERS AND FIRST AID KITS THAT MAY BE UTILIZED IN CASE OF AN EMERGENCY. PERSONNEL OPERATING ELECTRICAL EQUIPMENT AT THE TIME THE EVACUATION NOTICE IS GIVEN, WILL BE RESPONSIBLE TO TURN THAT MACHINE OFF AND IF POSSIBLE, UNPLUG IT.

IX. EMERGENCY PLAN - CHEMICALS SPILLS

THE EMERGENCY COORDINATOR MUST MAKE AN ASSESSMENT AND TAKE ACTION WHERE NECESSARY TO ALLEVIATE RISK IN SPILL SITUATIONS. CONSIDERATION MUST BE GIVEN TO THE FOLLOWING POTENTIAL THREATS INVOLVING HAZARDOUS MATERIALS AND HAZARDOUS WASTES:

-- THE POTENTIAL FOR THE RELEASED MATERIAL BEING A FLAMMABLE LIQUID WHICH WOULD POSE A FIRE HAZARD.

-- THE POSSIBILITY OF GROUND CONTAMINATION WHICH WOULD REQUIRE REMOVAL AND PROPER DISPOSAL OF SOIL SHOWING SUCH CONTAMINATION.

-- DEALING WITH SURFACE WATER WHICH MAY BECOME MIXED WITH THE RELEASED MATERIAL.

-- AWARENESS AND GUARDING FOR POTENTIAL IGNITION SOURCES AND DETERMINING WHETHER THE RELEASE OF FUMES COULD POSE A FIRE AND/OR EXPLOSION HAZARD WHICH MIGHT NECESSITATE NEIGHBOR EVACUATION.

IX. EMERGENCY PLAN - CHEMICAL SPILLS

A. PROCEDURE:

1. RESCUE INJURED, REMOVE TO SAFE AREA AND ADMINISTER FIRST AID.
2. IF NECESSARY, IMPLEMENT THE FACILITY EVACUATION PROCEDURE.
3. ACTIVATE THE EMERGENCY REACTION PROCEDURE TO DEAL WITH THE CHEMICAL AS THE SITUATION DICTATES.
4. A. IF THE SPILL IS A LIQUID ACID CORROSIVE, A DIKE OF SODA ASH OR SODIUM BICARBONATE WILL BOTH CONTAIN AND NEUTRALIZE THE LIQUID. IF THE SPILL IS A MAJOR ONE, SAND SHOULD BE USED FOR A DIKING/CONTAINMENT MATERIAL.

   B. IF THE SPILL IS A LIQUID CORROSIVE BASE, (E.G., CAUSTIC SODA, CAUSTIC POTASH, AQUA AMMONIA), A DIKE OF BORIC ACID WILL BOTH CONTAIN AND NEUTRALIZE THE LIQUID. IF THE SPILL IS A MAJOR ONE, SAND SHOULD BE USED FOR A DIKING/CONTAINMENT MATERIAL.

   C. IF THE SPILL IS A NON-CORROSIVE LIQUID (E.G., FLAMMABLES, CHLORINATED SOLVENTS, GLYCOLS), USE SAND OR MUD TO DIKE/CONTAIN THE SPILL AND ABSORB THE MATERIAL.

   D. IF THE SPILL IS A SOLID, CLEAN UP THE SPILL AND PLACE IT IN A CONTAINER.

   UNDER NO CIRCUMSTANCES WASH DOWN ANY SPILL WITHOUT FIRST CONFERRING WITH THE REGIONAL OR HOME OFFICE OPERATIONS STAFF.

IX. EMERGENCY PLAN - CHEMICAL SPILLS (CONT'D)

A. PROCEDURE (CONT'D)

5. SOME GENERAL RULES OF HANDLING INDUSTRIAL SPILLS:

   A. KEEP FOUR THINGS IN MIND -- CONTROL, CONTAIN, CLEAN-UP, AND COMMUNICATION.

   B. KEEP SPECTATORS AWAY FROM SPILL.

   C. NO MATTER WHAT THE MATERIAL -- DO NOT ALLOW SMOKING IN THE AREA.

   D. BE ALERT FOR OTHER IGNITION SOURCES.

   E. WHENEVER POSSIBLE, TRANSFORM SMALL LIQUID SPILL INTO A SOLID STATE AND THEN PROCEED AS IF IT WERE A SOLID.

B. NOTIFICATION:

1. NOTIFY MEMBER OF REGIONAL OPERATIONS STAFF IMMEDIATELY.
2. FOR OPERATIONAL ASSISTANCE, IF NO ONE IN REGIONAL OPERATIONS IS AVAILABLE CONTACT MEMBER OF HOME OFFICE OPERATIONS STAFF.
3. IT WILL BE THE RESPONSIBILITY OF THE REGIONAL STAFF TO NOTIFY STATE AND FEDERAL AGENCIES.
4. IT WILL BE THE RESPONSIBILITY OF THE BRANCH/PLANT MANAGEMENT TO NOTIFY LOCAL OFFICIALS AS APPLICABLE.
5. CONTACT COMPANIES PREVIOUSLY IDENTIFIED TO ASSIST WITH SPILL CONTAINMENT, CLEAN-UP, AND DISPOSAL, AS APPLICABLE.

IX. EMERGENCY PLAN - CHEMICAL SPILLS (CONT'D)

C. HAZARDOUS CHEMICALS CLASSIFICATION:

LISTED BELOW IS A GENERAL CLASSIFICATION OF THE HAZARDOUS CHEMICALS THAT WE DISTRIBUTE:

1. OXIDIZERS; FOR EXAMPLE,

AMMONIUM NITRATE	SODIUM NITRATE
CALCIUM HYPOCHLORITE (HTH)	SODIUM NITRITE
POTASSIUM PERMANGANATE	HYDROGEN PEROXIDE

THESE MATERIALS YIELD OXYGEN READILY TO STIMULATE THE BURNING OF COMBUSTIBLE MATERIALS AND FUELS. IF SPILLED, THEY SHOULD BE KEPT FROM COMING INTO CONTACT WITH FLAMMABLE LIQUIDS AND OTHER COMBUSTIBLE MATERIALS.

CHLORATES, PERCHLORATES, NITRATES, AND PEROXIDES CONTAIN LABILE OXYGEN AND WHEN HEATED OR SUBJECTED TO STRONG SHOCKS, CAN DECOMPOSE WITH AN EXPLOSIVE FORCE. IF THESE MATERIALS OR THEIR CONTAINERS ARE INVOLVED IN A FIRE, PERSONNEL SHOULD BE EVACUATED FROM THE SCENE.

2. POISONS

SOME POISONS, SUCH AS THE CYANIDES, ARE EXTREMELY TOXIC AND VERY SMALL QUANTITIES CAN CAUSE IMMEDIATE ILLNESS OR DEATH. EVACUATE PERSONNEL FROM THE IMMEDIATE AREA. IF POSSIBLE, CONFINE SPREAD OR FLOW OF MATERIALS TO THE IMMEDIATE AREA. PERSONNEL CONTACTED BY MATERIAL MUST WASH IMMEDIATELY, REMOVE CONTAMINATED CLOTHING AND OBTAIN IMMEDIATE MEDICAL ATTENTION.

IX. EMERGENCY PLAN - CHEMICAL SPILLS (CONT'D)

C. HAZARDOUS CHEMICALS CLASSIFICATION (CONT'D)

3. CORROSIVES

ACETIC ACID	SULFURIC ACID
CAUSTIC SODA	HYDROCHLORIC ACID (MURIATIC)
CALCIUM HYPOCHLORITE	NITRIC ACID

WHEN CORROSIVE MATERIAL CONTACTS OTHER HAZARDOUS MATERIALS SUCH AS FLAMMABLES, OXIDIZERS, ETC., VIOLENT REACTIONS, FIRE AND ERUPTIONS CAN OCCUR. SPILLS OF THESE MATERIALS MAY LIBERATE LARGE VOLUMES OF FUMES THAT ARE TOXIC AND CAN CAUSE EYE, SKIN, AND RESPIRATORY INJURY. PERSONNEL SHOULD EVACUATE AREA OF FUME CLOUDS AND AVOID CONTACT WITH THE MATERIAL. MOST CORROSIVES WILL GENERATE HEAT WHEN CONTACTED BY WATER AND MAY ERUPT AND VIOLENTLY FUME.

SPILLS SHOULD BE CONFINED IF POSSIBLE, TO PREVENT MIXING WITH OTHER MATERIALS OR CONTAMINATION OF STREAMS AND PROPERTY. PERSONNEL COMING INTO CONTACT WITH THESE MATERIALS SHOULD WASH WITH WATER FOR FIFTEEN MINUTES, IMMEDIATELY REMOVE CONTAMINATED CLOTHING AND SHOES AND OBTAIN MEDICAL ATTENTION.

IX. EMERGENCY PLAN - CHEMICAL SPILLS (CONT'D)

C. HAZARDOUS CHEMICALS CLASSIFICATION (CONT'D)

4. FLAMMABLES

METHANOL	ISOPROPYL ALCOHOL ANHYDROUS
ACETONE	METHYL ETHYL KETONE
TOLUENE	METHYL ISOBUTYL KETONE

FLAMMABLE VAPORS WHEN SPILLED AT TEMPERATURES ABOVE THEIR FLASH POINTS WILL IGNITE WHEN CONTACTED WITH AN OPEN FLAME, SPARKS, OR HOT SURFACES. THEIR VAPORS ARE OFTEN HEAVIER THAN AIR AND WILL FLOW TO LOW PLACES AND USUALLY DOWN HILL. VAPOR CLOUDS WHEN IGNITED BURN RAPIDLY SPREADING FLAME BACK TO THE SOURCE OF THE SPILL. CONTACT WITH CORROSIVE MATERIALS MAY CAUSE IGNITION AND SHOULD BE PREVENTED. ACTION SHOULD BE TAKEN TO KEEP IGNITION SOURCES OUT OF THE AREA OF VAPOR CLOUDS.

X. TOXIC GAS RELEASE

A. PROCEDURE:

1. RESCUE INJURED, REMOVE TO A SAFE AREA AND ADMINISTER FIRST AID.
2. IF NECESSARY, IMPLEMENT THE FACILITY EVACUATION PROCEDURE.
3. ACTIVATE THE EMERGENCY REACTION PROCEDURE TO DEAL WITH THE CHEMICAL AS THE SITUATION DICTATES.
4. USING TRAINED PERSONNEL WITH THE PROPER PROTECTIVE EQUIPMENT, STOP THE PRODUCT RELEASE IF POSSIBLE.
5. SOME GENERAL RULES OF HANDLING TOXIC GAS RELEASES:
   - A. KEEP SPECTATORS AWAY FROM RELEASE
   - B. NO MATTER WHAT THE MATERIAL - DO NOT ALLOW SMOKING IN THE AREA

B. NOTIFICATION:

1. NOTIFY REGIONAL/HOME OFFICE OPERATIONS STAFF.
2. IT WILL BE THE RESPONSIBILITY OF THE REGIONAL STAFF TO NOTIFY STATE AND FEDERAL AGENCIES.
3. IT WILL BE THE RESPONSIBILITY OF THE BRANCH/PLANT MANAGMENT TO NOTIFY LOCAL OFFICIALS AS APPLICABLE.
4. CONTACT COMPANIES PREVIOUSLY IDENTIFIED TO ASSIST WITH THE SPILL CONTAINMENT, CLEAN-UP, AND DISPOSAL AS APPLICABLE.

C. TOXIC GAS CLASSIFICATIONS:

LISTED BELOW ARE GENERAL CLASSIFICATIONS OF THE TOXIC GASES THAT WE HANDLE:

1. COMPRESSED GASES - COMPRESSED GASES MAY BE "FLAMMABLE" OR "NON-FLAMMABLE". PERSONNEL SHOULD BE EVACUATED A SAFE DISTANCE FROM THE AREA. AVOID BREATHING GASES.
2. FLAMMABLE GASES -

   HYDROGEN SULFIDE

   PROPYLENE

   PROPANE

X. TOXIC GAS RELEASE

C. Toxic Gas Classifications cont'd.:

2. Flammable Gases -

This material usually ignites immediately upon rupture or serious leak. Otherwise, the gas cloud is easily ignited and will result in rapid combustion of the entire cloud. Fires from leaks in containers that cannot be shut off should be allowed to burn and the container kept cool.

3. Non-flammable gas -

   Anhydrous Ammonia

   Chlorine

   Sulphur Dioxide

This material can cause injury or asphyxiation of persons entering the cloud. Tanks containing non-flammable gases can rupture violently when exposed to intense fire conditions.

XI. STORM, FLOODS

IN THE EVENT OF A SEVERE STORM (E.G., TORNADO), ALL BRANCH PERSONNEL SHOULD TAKE SHELTER IN AN INTERIOR HALLWAY OR ROOM, AWAY FROM WINDOWS. NO ONE SHOULD REMAIN IN THE YARD OR EXPOSED AREA OF THE WAREHOUSE.

IN THE CASE OF FLOODS, OR, MORE LIEKLY, HIGH WATER DUE TO RAIN, THE MAJOR PRECAUTION IS TO SHUT OFF THE MAIN POWER PANEL. INVENTORY MUST BE LOOKED TO AND REPOSITIONED AS NECESSARY TO PROTECT IT. THE PRESENCE OF HAZARDOUS WASTES REQUIRES PARTICULAR ATTENTION, AND MAY REQUIRE TRANSPORTING TO ANOTHER LOCATION IN CONCURRENCE WITH EPA RULES.

IN ANY KIND OF SEVERE WEATHER SITUATIONS, RELY ON A BATTERY-POWERED RADIO FOR WEATHER ADVISORIES.

XII. EMERGENCY PLAN - BOMB THREAT

1. THE THREAT

THE TELEPHONE CALL THREAT. (A HIGH PERCENTAGE OF BOMBINGS ARE PRECEDED BY TELEPHONE CALLS.) IN THE EVENT OF A BOMB PHONE CALL:

A. IF POSSIBLE, SECURE THE FOLLOWING INFORMATION. (USE CHECK LIST ON ATTACHED SHEET.)

DATE AND TIME OF CALL.

ANY BACKGROUND NOISE - MUSIC, PEOPLE TALKING, ETC.

LOCATION OF BOMB AND THE TIME IT IS SET TO GO OFF.

WHAT KIND OF BOMB.

WHAT KIND OF PACKAGE.

JUDGE THE VOICE -- DRUGGED OR DRINKING, AGE, SEX, ETC.

ASK FOR CALLER'S NAME AND ADDRESS (YOU MIGHT GET IT).

B. THESE QUESTIONS WILL DETAIN THE CALLER SO A TRACE CAN BE MADE. TO TRACE A CALL, HAVE ANOTHER EMPLOYEE CALL THE SECURITY OFFICE OF THE TELEPHONE COMPANY ON A DIFFERENT LINE.

C. NOTIFY THE POLICE OF THE THREAT.

D. NOTIFY CORPORATE SECURITY.

2. THE SEARCH TECHNIQUE

DON'T TOUCH, HANDLE, OR MOVE ANY SUSPICIOUS OBJECT.

MAKE A SEARCH FOR SUSPICIOUS PACKAGES, BOXES, OR OBJECTS. HALLS AND TOILETS HEAD THE LIST OF PLACES. MAKE THE SEARCH WHILE WAITING FOR THE POLICE TO ARRIVE. HAVE EACH SUPERVISOR AND LEADMAN RESPONSIBLE

XII. EMERGENCY PLAN - BOMB THREAT (CONT'D).

2. THE SEARCH TECHNIQUE (CONT'D)

FOR CERTAIN AREA. A SYSTEMATIC SEARCH WILL ELIMINATE VALUABLE TIME LOSS, AWAITING POLICE ARRIVAL.

REPORT THE FINDINGS OF ANYTHING SUSPICIOUS TO THE POLICE. IF ANYTHING SUSPICIOUS IS FOUND, SET UP A "DANGER ZONE" AND EVACUATE ALL PERSONNEL FROM THIS ZONE (MINIMUM OF 300 FEET IN ALL DIRECTIONS). REMOVE FLAMMABLE MATERIALS IF PRACTICAL AND POSSIBLE.

BOMB THREAT CHECK LIST

____

DATE TIME YOUR NAME

____

LISTEN FOR BACKGROUND NOISES DESCRIBE:

CHECK IF HEARD:

MUSIC ______

PEOPLE TALKING ______

CARS OR TRUCKS ______

AIRPLANE ______

CHILDREN OR BABIES ______

MACHINE NOISE ______

TYPING ______

OTHER ______

____

ASK:

WHERE IS THE BOMB?______________________________

WHAT TIME IS IT SET TO GO OFF?______________________________

WHAT KIND OF BOMB IS IT?______________________________

WHAT KIND OF PACKAGE OR BOX?______________________________

WHAT IS YOUR NAME?______________________________

WHERE DO YOU LIVE?______________________________

HOW OLD ARE YOU?______________________________

WHEN DID YOU SET THE BOMB?______________________________

____

JUDGE THE VOICE:

MAN______ WOMAN______ CHILD______ AGE______ DRINKING______ OTHER______

XIII. HAZARDOUS WASTES

ALTHOUGH IT IS RECOGNIZED THAT THE THREAT POSED BY AN EMERGENCY INVOLVING ANY HAZARDOUS WASTES STORED ON THE BRANCH'S PREMISES IS EQUIVALENT CHEMICALLY TO THAT INVOLVING THE VIRGIN VERSION OF THE SAME SOLVENT OR SOLVENT MIXTURE, SOME PROCEDURAL DIFFERENCES APPLY.

IN THE EVENT OF AN EMERGENCY SITUATION INVOLVING HAZARDOUS WASTES, THE EMERGENCY COORDINATOR MUST BE NOTIFIED. HE WILL DETERMINE THE APPROPRIATE MEASURES TO BE IMPLEMENTED (I.E., ALARMS, EVACUATION, ETC.) AND WHICH FEDERAL, STATE, OR LOCAL AGENCIES AS WELL AS FIRE AND POLICE DEPARTMENTS MUST BE CONTACTED.

IN THE EVENT ESPECIALLY OF A RELEASE OR FIRE, THE COORDINATOR MUST TRY TO DETERMINE BY OBSERVATION, FACILITY RECORDS, OR ANALYSIS (IF TIME PERMITS), WHAT IS THE IDENTITY OF THE MATERIAL INVOLVED, EXACT SOURCE, AMOUNT, AND EXTENT OF IMPACT THE RELEASED MATERIAL WILL HAVE FROM A HUMAN AND ENVIRONMENTAL ASPECT.

AN ASSESSMENT OF THE SITUATION MUST BE MADE TO DETERMINE POSSIBLE HAZARDOUS TO HUMAN HEALTH AND/OR THE ENVIRONMENTAL DUE TO THE EMERGENCY SITUATION. THE COORDINATOR MUST LOOK AT ALL POSSIBLE DIRECT AND INDIRECT EFFECTS WHICH MIGHT RESULT FROM THE EMERGENCY. THE COORDINATOR MUST FURTHER DETERMINE WHETHER THE FACILITY PERSONNEL ARE ADEQUATELY EQUIPPED TO DEAL WITH THE SITUATION, OR WHETHER IT IS NECESSARY TO CONTACT OUTSIDE EMERGENCY AGENCIES TO RENDER ASSISTANCE.

THE POTENTIAL INCIDENTS WHICH ARE OF HIGHEST PRIORITY FOR EMERGENCY PLANNING AT THIS FACILITY ARE (1) FIRE AND/OR EXPLOSION, (2) SPILLS OR MATERIAL RELEASES. OTHER NATURAL DISASTERS SUCH AS TORNADOS, EARTHQUAKES, FLOODS, ETC., WOULD BE HANDLED IN SIMILAR RESPONSE

MANNERS AS OUTLINED ELSEWHERE IN THIS CONTINGENCY PLAN AS DEEMED APPROPRIATE BY THE EMERGENCY COORDINATOR.

THE OUTSIDE STORAGE YARD WHICH INCLUDES THE DESIGNATED WASTE STORAGE AREA IS ACCESSIBLE BY MEANS OF ENTRY EITHER THROUGH THE WAREHOUSE OR ACROSS THE YARD. THIS AREA IS HARD-SURFACED AND REMAINS UNOBSTRUCTED AT ALL TIMES.

FIRE

PERSONNEL AT THE FACILITY HAVE BEEN PROVIDED INSTRUCTION BY THE LOCAL FIRE DEPARTMENT ON USE AND APPLICATION OF VARIOUS ON-SITE FIRE EXTINGUISHERS FOR FIREFIGHTING EFFORTS UNTIL APPROPRIATE OUTSIDE EMERGENCY TEAMS ARRIVE. THE EFFORTS OF FACILITY PERSONNEL SHALL CENTER ON EXTINGUISHING THE FIRE AND PREVENTING ITS SPREAD.

THE COORDINATOR SHALL ASSURE THAT, IF APPROPRIATE, THE EVACUATION SIGNAL IS GIVEN, AT WHICH TIME ALL PERSONNEL WHO ARE NOT DIRECTLY INVOLVED IN THE INCIDENT CONTROL EFFORTS, ARE TO PROCEED TO THE DESIGNATED CONGREGATION POINT WHICH IS INDICATED ON THE SITE DIAGRAM INCLUDED IN THE CONTINGENCY PLAN. ALL ACTIVITIES SHALL BE CEASED WITHIN THE FACILITY AND EQUIPMENT REMOVED FROM THE BUILDING PROXIMITY AS TIME ALLOWS. POWER SOURCES MUST BE SHUT DOWN. TRAFFIC FLOW AND OUTSIDE OBSERVERS MUST BE CONTROLLED AND THE AREA ISOLATED TO ALLEVIATE POTENTIAL ADDITIONAL IGNITION SOURCES. SHOULD THE MATERIALS WHICH MAY BE AFFECTED BY THE EMERGENCY BE OF SUCH A NATURE AS TO POSE A THREAT OF VIOLENT CONFLAGRATION, EXPLOSION, OR FUME RELEASE, THE COORDINATOR SHALL ADVISE EMERGENCY PERSONNEL AND RENDER ANY ASSISTANCE DEEMED NECESSARY TO IMPLEMENT EVACUATION OF THE SURROUNDING AREA WITHIN 1/4 MILE. ALL EMPLOYEES TRAINED AND PARTAKE IN DRILLS ON EVACUATION PROCEDURES ARE AND INSTRUCTED NOT TO LEAVE THE DESIGNATED

CONGREGATION POINT UNLESS SO DIRECTED BY THE PARTY RESPONSIBLE FOR ACCOUNTING FOR ALL EMPLOYEES.

THE EMERGENCY COORDINATOR SHALL MAKE THE JUDGMENT AS TO ALLOW RETURN TO THE BUILDING, OR TO RELEASE PERSONNEL TO LEAVE THE SITE ONCE THE EMERGENCY SITUATION HAS BEEN BROUGHT UNDER CONTROL.

SPILLS

SPILLS OR MATERIAL RELEASES UPON DISCOVERY MUST BE REPORTED TO THE EMERGENCY COORDINATOR OR AN ALTERNATE. IMMEDIATE RESPONSE IS REQUIRED TO MINIMIZE THE IMPACT OF THE RELEASE. THE COORDINATOR MUST ASSESS THE PROPER ACTIONS AND PRECAUTIONS TO BE TAKEN TO PROTECT HUMAN HEALTH AND THE ENVIRONMENT. HE MUST ALSO INITIATE APPROPRIATE ACTIVITY TO IDENTIFY, CONTAIN, COLLECT, AND PROPERLY DISPOSE OF THE MATERIAL.

BECAUSE THIS FACILITY DEALS WITH ONLY CONTAINERIZED MATERIALS IN WASTE FORM, THE AMOUNT OF MATERIAL WHICH HAS POTENTIAL FOR RELEASE FROM ONE CONTAINER IS RELATIVELY SMALL. HOWEVER, PROMPT AND SAFE PROCEDURES MUST BE FOLLOWED BY ALL WITH SUCH A SITUATION, IN AN APPROPRIATE MANNER.

THE COORDINATOR MUST MAKE CONTINUAL ASSESSMENTS AS TO THE POTENTIAL IMPACTS OF THE RELEASE PERTAINING TO FIRE HAZARDS, FUME ESCAPES WHICH MAY NECESSITATE EVACUATION OF THE FACILITY AND/OR NEIGHBORS, INITIATING CLEANUP (AND ASSURING OF THE PROPER UTILIZATION OF SAFETY EQUIPMENT TO UNDERTAKEN THIS ACTIVITY), DETERMINATION OF NECESSITY FOR CALLING IN OF OUTSIDE EMERGENCY AGENCY ASSISTANCE, AND INITIATING THE REQUIRED REPORTING AND DOCUMENTATION OF INCIDENTS (I.E., MATERIAL DESIGNATED BY RQ QUANTITIES AS LISTED UNDER SUPERFUND, SOLID WASTE DISPOSAL ACT, CLEAN AIR ACT, CLEAN WATER ACT, OR TSCA, OR WHICH COULD BE CLASSIFIED AS HAZARDOUS UNDER RCRA).

XIII. HAZARDOUS WASTE CONT'D.

THE SECONDARY CONTAINMENT AREA WILL HOLD MATERIALS RELEASED FROM DRUMS DURING STORAGE, IN SUCH CASES, THE COORDINATOR IS TO BE NOTIFIED AND WILL INITIATE THE APPROPRIATE CLEANUP MEASURES. LIQUID MATERIAL WILL BE REMOVED BY MEANS OF A PORTABLE PUMP, AND PLACED INTO AN APPROPRIATE SPECIFICATION DRUM FOR THE MATERIAL. SHOULD SOIL CONTAMINATION BE EVIDENT, A LAYER OF SOIL SHALL BE REMOVED TO AN ADEQUATE DEPTH TO ASSURE THAT ALL CONTAMINATION IS REMOVED. THE CONTAMINATED SOIL SHALL BE PLACED INTO OPEN-TOP DRUMS AND SEALED FOR DISPOSITION. ALL ACCUMULATED LIQUIDS AND COLLECTED CLEANUP MATERIALS SHALL BE LABELLED AND MARKED AS APPROPRIATE FOR THE MATERIAL. SAMPLES OF RESULTING MATERIALS RELEASED SHALL BE TAKEN IF FOR SOME REASON THERE SHOULD BE ANY QUESTIONS AS TO COMPOSITION OR HAZARD DUE TO MULTIPLE CONTAINER RELEASES, WATER EXTINGUISHING MATERIAL DILUTION, ETC. APPROPRIATE SAFETY EQUIPMENT USAGE SHALL BE ENFORCED DURING ALL OF THESE PROCEDURES. PROPER DOCUMENTATION OF THE INCIDENT IN THE FACILITY RECORDS SHALL BE INITIATED, AND REPORTING OF THE INCIDENT TO FEDERAL, STATE, LOCAL, AND COMPANY PERSONNEL SHALL BE UNDERTAKEN AS APPROPRIATE. IN THE EVENT THAT THE CONTINGENCY PLAN MUST BE IMPLEMENTED AND THE INCIDENT IS REPORTABLE AS DEFINED BY 40 CFR 264.56(J), A WRITTEN REPORT SHALL BE FILED WITH APPROPRIATE FEDERAL, STATE, AND LOCAL AUTHORITIES.

IN ADDITION TO ANY REPORTS REQUIRED BY GOVERNMENT AGENCIES, INCIDENTS WILL BE REPORTED WITH 48 HOURS TO THE REGIONAL OPERATIONS DEPARTMENT LOCATED IN MONTVALE, NEW JERSEY ((201) 573-9480).

COLLECTED MATERIALS FROM A RELEASE SITUATION SHALL BE TYPICALLY DISPOSED OF THROUGH MCKESSON ENVIROSYSTEMS. IN THE EVENT THAT THEY WERE UNABLE TO DEAL WITH THE MATERIALS BASED ON PERMITS AND/OR TECHNOLOGY, AN OUTSIDE DISPOSAL FIRM WOULD BE CONTRACTED WITH TO MAKE DISPOSITION OF THE MATERIAL.

IN ANY EVENT, THE COORDINATOR SHALL BE RESPONSIBLE TO ASSURE THAT THE PARTY MAKING DISPOSITION OF THE MATERIAL IS PROPERLY PERMITTED AND HAS THE RESOURCES TO DEAL WITH THE RESIDUALS IN A PROPER FASHION.

IF FOR SOME REASON RELEASED MATERIAL WERE TO ESCAPE THE SECONDARY CONTAINMENT AREA, THE COORDINATOR SHALL INITIATE RESPONSE TO PERSONNEL TO CONTAIN THE MATERIALS BY MEANS OF AN INERT MATERIAL SUCH AS SANDBAGS, HAZORB ABSORBENT, OR STANDARD INDUSTRIAL ABSORBENTS. THE SAME PROCEDURES, EFFORTS, CLEANUP, SAFETY CONSIDERATIONS, ASSESSMENTS, AND DOCUMENTATION/REPORTING REQUIREMENTS SHALL BE FOLLOWED AS WAS OUTLINED IN THE EVENT OF AN OCCURRENCE WITHIN THE SECONDARY CONTAINMENT AREA.

ALL EQUIPMENT USED IN CLEANUP WHICH MAY BECOME CONTAMINATED DURING ACTIVITIES SHALL BE DECONTAMINATED USING MATERIALS APPROPRIATE TO CAUSE REMOVAL OF THE CONTAMINANT. THE RESULTING MATERIAL FROM THIS DECONTAMINATION PROCESS SHALL BE PLACED WITHIN THE RESIDUAL CLEANUP CONTAINERS FOR DISPOSAL, UNLESS IT IS DEEMED INCOMPATIBLE WITH MATERIALS ALREADY CONTAINED IN SUCH VESSEL.

DURING ANY EMERGENCY SITUATION, THE EMERGENCY COORDINATOR MUST TAKE ALL REASONABLE MEASURES NECESSARY TO ENSURE THAT FIRES, EXPLOSIONS, AND RELEASES, DO NOT OCCUR, RECUR, OR SPREAD TO OTHER UNAFFECTED AREAS OF THE FACILITY. THESE MEASURES INCLUDE, WHERE APPLICABLE, STOPPING PROCESSES AND OPERATIONS, COLLECTING AND CONTAINING RELEASED WASTE, AND REMOVAL AND/OR ISOLATING CONTAINERS.

IMMEDIATELY AFTER AN EMERGENCY, THE COORDINATOR MUST PROVIDE FOR TREATING, STORING, OR DISPOSING OF RECOVERED WASTE, CONTAMINATED SOIL OR SURFACE WATER, OR ANY OTHER MATERIAL THAT RESULTS FROM A RELEASE, FIRE, OR EXPLOSION AT THE FACILITY. ASSURANCES MUST BE MADE THAT ALL OF THESE

XIII. HAZARDOUS WASTES CONT'D.

ENDEAVORS ARE UNDERTAKEN IN THE APPROPRIATE MANNER AS GOVERNED BY FEDERAL, STATE, AND LOCAL LAWS. RESIDUAL MATERIAL FROM CLEANUP OPERATIONS SHALL BE PROPERLY STORED, MARKED, LABELLED, AND HANDLED AS TO PREVENT ANY FURTHER INCIDENT.

THE EMERGENCY COORDINATOR OR AN ALTERNATE MUST ENSURE IN AN EMERGENCY SITUATION THAT IN THE AFFECTED AREA OF THE FACILITY, NO WASTE WHICH MIGHT BE OF AN INCOMPATIBLE NATURE WITH THE RELEASED MATERIAL IS STORED UNTIL CLEANUP PROCEDURES ARE COMPLETED.

ALL EMERGENCY EQUIPMENT LISTED IN THE CONTINGENCY PLAN WHICH IS PRESENT AT THE FACILITY AND MAY HAVE BEEN UTILIZED DURING THE EMERGENCY SITUATION MUST BE CLEANED, RECHARGED, INSPECTED, REPLACED, AND FIT FOR USE BEFORE RESUMING NORMAL OPERATIONS.

THIS MCKESSON CHEMICAL COMPANY FACILITY HAS AN ASSORTMENT OF EMERGENCY EQUIPMENT PRESENT FOR USE IN DIFFERENT SITUATIONS. ON-SITE EMERGENCY EQUIPMENT IS KEPT IN VARIOUS DESIGNATED LOCATIONS WITHIN THE WAREHOUSE, AS WELL AS DRIVER KITS ON EACH TRUCK WHICH CONTAIN SPECIFIC ITEMS WHICH MAY BE UTILIZED IN POTENTIAL EMERGENCY SITUATIONS WHILE ON THE ROAD. A LISTING OF EQUIPMENT AVAILABLE AT THE FACILITY IS INCLUDED IN THIS PLAN.

Wastes Anticipated To Be Handled in Drums At Facility

McKesson Chemical Company

Chemical	Hazard	Basis For Hazard Designation
Tetrachloroethylene	Toxic	Listed waste F001, F002
Trichloroethylene	Toxic	Listed waste F001, F002
Methylene Chloride	Toxic	Listed waste F001, F002
1,1,1 Trichloroethane	Toxic	Listed waste F001, F002
Carbon Tetrachloride	Toxic	Listed waste F001
Chlorinated Fluorocarbons	Toxic	Listed waste F001, F002
Xylene	Ignitable	Listed waste F003
Acetone	Ignitable	Listed waste F003
Ethyl Acetate	Ignitable	Listed waste F003
Ethyl Ether	Ignitable	Listed waste F003
Methyl Isobutyl Ketone	Ignitable	Listed waste F003
n-Butyl Alcohol	Ignitable	Listed waste F003
Cyclohexanone	Ignitable	Listed waste F003
Methanol	Ignitable	Listed waste F003
Toluene	Toxic, Ignitable	Listed waste F005
Methyl Ethyl Ketone	Toxic, Ignitable	Listed waste F005
Isobutanol	Toxic, Ignitable	Listed waste F005

The above will also be expected in the form of blends with each other, still in drums.

XIV. EMERGENCY PRESS RELATIONS

THE FOLLOWING IS A SYNOPSIS OF THE EMERGENCY PRESS RELATION POLICY FROM THE HOME OFFICE OPERATIONS MANUAL (REF: 10.21). IT IS INCLUDED ONLY AS A QUICK REFERENCE IN CASE OF AN EMERGENCY WHEN YOU MUST DEAL WITH THE PRESS AND THE HOME OFFICE OPERATIONS MANUAL IS NOT AVAILABLE.

1. IF THE EMERGENCY INVOLVES LOCAL FIRE, POLICE, OR HOSPITAL AUTHORITIES AND IS LIKELY TO BE REPORTED IN THE PRESS, IT IS USUALLY TO THE ADVANTAGE OF THE COMPANY TO GIVE THE PRESS A BRIEF STATEMENT OF THE FACT WITHOUT WAITING TO BE ASKED IN ORDER TO PREVENT RUMOR AND DISTORTION OF THE FACTS.
2. SPOKESMEN ARE CAUTIONED NOT TO SPECULATE OR GIVE OPINIONS ON CAUSE, COST, OR OTHER INFORMATION RELATING TO THE EMERGENCY.
3. IN TIME OF DISASTER, REPORTERS AND PHOTOGRAPHERS DESIRING ADMITTANCE TO A COMPANY FACILITY SHOULD BE ESCORTED TO AN ADMINISTRATIVE AREA AND PROVIDED WITH A PLACE TO WORK AND MAKE PHONE CALLS.
4. ALLOW NEWS AND TV PHOTOGRAPHERS TO TAKE PICTURES UNLESS IT VIOLATES SECURITY.
5. IF REPORTERS CANNOT GET FACTS FROM A MCKESSON REPRESENTATIVE, THEY CAN GET AT LEAST SOME OF THEM READILY (BUT NOT SECOND HAND) FROM THE POLICE, THE CORONER, HOSPITALS, AND THE FIRE DEPARTMENT - AGENCIES THEY CONTACT CONSTANTLY. IF REPORTERS HAVE TO TRY TO PRY "FACTS" FROM SOME BYSTANDER WHO MORE THAN LIKELY DOES NOT KNOW THE FACTS (BUT IS USUALLY DELIGHTED TO TALK ANYWAY), THE STORY COULD BE HIGHLY COLORED AND INACCURATE.
6. THE WRONG ANSWER, OR A TOO-HASTY, CURT, EVASIVE, OR OFF-THE-CUFF ANSWER, COULD DO HARM TO THE COMPANY AND ITS GOOD REPUTATION WITH THE PUBLIC.
7. NO ANSWER AT ALL, OR A BLUNT "NO COMMENT" IS OFTEN THE WORST POSSIBLE RESPONSE. THERE IS A GENERAL IMPRESSION THAT BEHIND THE STATEMENT "NO COMMENT" HIDE THE GUILTY, THE FRIGHTENED, OR THE INTIMIDATED.

XIV. EMERGENCY PRESS RELATIONS CONT'D.

8. EXPERIENCED REPORTERS KNOW THAT OCCASIONALLY THERE ARE DEVELOPMENTS WHICH MUST BE KEPT CONFIDENTIAL FOR A TIME. IF THAT IS THE SITUATION, EXPLAIN FULLY AND CLEARLY THE REASON WHY THE ANSWER CANNOT BE GIVEN, AND ASSURE REPORTERS THAT THEY WILL BE INFORMED AS SOON AS INFORMATION IS AVAILABLE.

9. IF REPORTERS WANT TO QUOTE YOU BY NAME, THERE IS USUALLY NO REASON WHY THEY SHOULD NOT DO SO.

XV. APPENDIX

NORMALLY THE TRAINING PROTOCOLS FOR TRUCK DRIVERS AND WAREHOUSEMEN ARE INCLUDED IN THIS SECTION OF EACH BRANCH'S CONTINGENCY PLAN. HOWEVER, SINCE THESE PROTOCOLS WERE INCLUDED PREVIOUSLY IN THE SECTION OF THE PART B APPLICATION DEVOTED TO PERSONNEL TRAINING (122.25(A)(12)), THEY ARE NOT REPEATED IN THIS PARTICULAR PLAN FOR THE SAKE OF SIMPLICITY.

SUPERSEDED

Because McKesson Chemical Company at this location functions only as a hazardous waste storage facility, notation is not necessary in the deed to inform potential purchasers of restrictions.

Following is a formal Closure Plan and calculations showing how the closure cost for the facility was calculated. Although this latter figure is valid, it may be construed as being unrealistically low - but even an increase by an order of magnitude (10X) would be adequately covered by Foremost-McKesson's financial assurance.